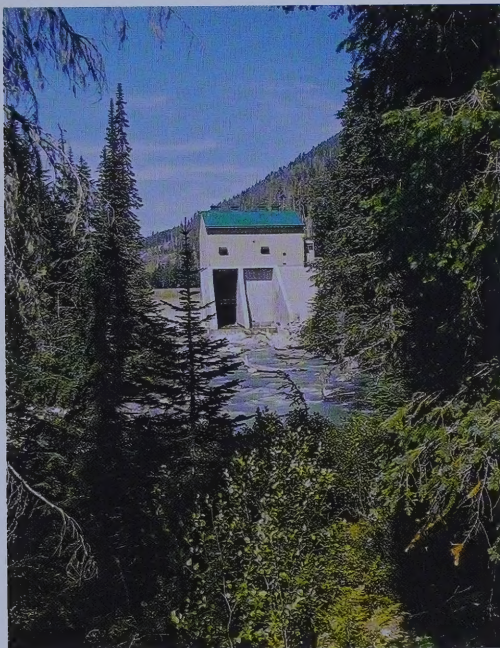


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CANADIAN HYDRO
DEVELOPERS, INC.

[Clean, Simple & Sound™]

ANNUAL
REPORT
2002

CANADIAN HYDRO
DEVELOPERS, INC.

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ANNUAL
REPORT
2002

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Annual General and Special Meeting of Shareholders

The 2002 Annual General and Special Meeting of the Shareholders of Canadian Hydro Developers, Inc. will be held in the Safari Lodge at the Calgary Zoo, 1300 Zoo Road N.E., Calgary, Alberta at 3:30 pm on Wednesday, April 23, 2003

[clean]

Clean energy produced from water and wind.



Standing (left to right) - Steve J. O'Gorman, J. Ross Keating, David R. Keavill, Angelito de la Paz, Kent E. Brown

Sitting (left to Right) - William A. Johnston, John D. Keating, M. Ann Hughes, Gavin S. Lowe

CEO's Message

Clean, Simple & Sound™ – these three words symbolize more than a decade of developing, owning and operating low-impact, renewable energy projects for Canadian Hydro Developers, Inc. Once considered an alternative to traditional fossil fuel power projects, renewable energy is now considered to be mainstream. Canadian Hydro harnesses clean energy produced from water and wind in a simple manner, resulting in power plants that generate sound, predictable returns for investors for decades to come.

Canadian Hydro owns and operates 12 low-impact, run-of-river water and wind power plants, and one natural gas fuelled plant. They are located in British Columbia, Alberta and Ontario. In addition, the Company has several projects in various stages of construction and development. Given that wind and run-of-river water resources are intermittent in nature, Canadian Hydro's long-standing risk management strategy of geographical and technological diversification has again been confirmed in 2002. Canadian Hydro's 2002 strategic plan calls for the Company to exit 2006 with 300 MW of green power plants in production and an inventory of active prospects

of at least 500 MW to foster further growth. In implementing this plan, the Company will continue to focus on what we have successfully done since 1990:

- Finding new sites for renewable energy projects;
- Securing long-term power sales contracts for these projects; and
- Financing, building and operating high quality, low-impact, power plants.

2002 Achievements:

Canadian Hydro's prominent achievement in 2002 was the completion of the major construction phase of the 30 MW Pingston Hydroelectric Plant in British Columbia. Although capital costs are higher than anticipated, and the project has taken approximately six months longer to complete, Pingston has become Canadian Hydro's marquis water power asset. Plans are underway for a 50% expansion at Pingston, with the addition of a third 15 MW unit, to be operational in 2004. With a 20-year green power contract to sell BC Hydro all the power generated, including from the expansion, Pingston is truly Clean, Simple & Sound™.

We invite you to review the enclosed article that outlines the Pingston Hydroelectric Plant and its development history, as well as the other sections in this annual report, such as the Report on Operations, Management's Discussion and Analysis and the related Audited Consolidated Financial Statements.

Listed on the Toronto Stock Exchange in 1995, the shares of Canadian Hydro (TSX-KHD) have increased from \$0.45/share that year to close at \$2.24 in 2002, for a compounded annual growth rate of 26% for the past 8 years. The Company will continue to focus on growth, as it has since commissioning its first plant in 1990.

In 2002, Canadian Hydro:

- Completed major construction of the 30 MW Pingston Hydroelectric Plant in B.C., with start-up expected in March 2003;
- Achieved record production, which increased by 20% to 294 million kWh;
- Signed two, 20-year power sale contracts with BC Hydro for the 30 MW Pingston Hydroelectric Plant and the 25 MW Upper Mamquam Hydroelectric Project;

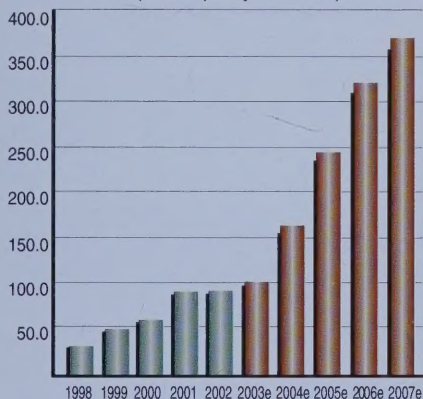
- Officially opened the 19.5 MW Cowley North and 6.5 MW Sinnott Wind Plants;
- Completed a public regulatory hearing for the 80 MW Dunvegan Hydroelectric Prospect in October 2002 with a decision regarding approval for construction and operation expected in the first quarter of 2003;
- Completed detailed engineering and readied for construction, the 25 MW Grande Prairie EcoPower™ Centre project;
- Raised \$8.8 million of common equity;
- Restructured and expanded credit facilities to \$68 million with National Bank of Canada and The Toronto-Dominion Bank, fixing the interest rate on \$52 million of debt at 6.77% for five years; and
- Made a provision for the non-core Drywood plant and related assets to their estimated net recoverable value to reflect the state of the Alberta electricity industry at year end.

Electricity Pricing

Despite depressed electricity prices throughout 2002, Canadian Hydro continued to produce solid financial results. By having no exposure to fossil-fuel price risk, and by taking a long-term approach to our growth and strategy, Canadian Hydro focuses on selling the majority of its power on a long-term basis at fixed prices. The result was that only 18% of our generation was exposed to these low spot market prices. The other 82% is sold under various long-term power sale agreements. Alberta is the only province where the Company has any material exposure to spot prices.

The price of electricity in Alberta began a precipitous fall in the summer of 2001 that closely mirrored movements in the price of natural gas, bringing the average spot price down from \$133/MWh in 2000 to \$71/MWh in 2001 and to \$44/MWh in 2002. Light reappeared at the end of the tunnel in November, when the average price rose to \$69, and then in December to \$74/MWh. The recent price increase can be attributed to a combination of rising natural gas prices on the continent and increased demand from the strong Alberta economy. These are solid reasons for optimism for the year ahead. The volatility and fundamental strength of the spot market is expected to further improve the market for long-term power sale agreements to support new projects.

Growth Objectives
(Exit Capacity - MW net)



In both Ontario and British Columbia, where 38% of Canadian Hydro's production is located, 95% of the electricity generated is sold pursuant to long term contracts to utility purchasers. As a result, the recent move by the Ontario government to cap power prices for consumers will have no effect on the Company's revenues.

Corporate Governance

Appropriate corporate governance has long been a priority for Canadian Hydro. Over the last several years, Canadian Hydro has taken steps to comply with its understanding of best practices of corporate governance, including:

- Proper financial disclosure, with a clean balance sheet and no "sidecar" issues such as sale and leaseback transactions or partnership arrangements;
- 85% of the directors are fully "independent";
- Audit and compensation committees are composed entirely of independent directors;
- Roles of Chairman and CEO are split;
- Board meets quarterly;
- CEO does not sit on any other publicly traded company's boards;
- CEO is required to own stock;
- The Company does not make loans to directors or employees;

- All directors are elected annually;
- All issued and outstanding shares comprise one class, with no non or multi-voting shares; and
- Management stock options constitute only 7.5% of the issued and outstanding shares, with a relatively modest dilutive effect on shareholders.

New Directors and Employees

We welcome the addition of Messrs. Michael Chernoff and Cyrille Vittecoq to the Board of Directors.

Mr. Chernoff has a long history of success in the energy industry, which culminated in the 1990's with the sale of the company he co-founded with his son to Alberta Energy Company, now known as Encana Corporation. In addition to his other interests, Mr. Chernoff also sits on the board of directors of Encana.

Mr. Vittecoq is a Director, Investments at CDP Capital - Americas and brings considerable power industry experience to the Board. Prior to 2000, Mr. Vittecoq was chief financial officer at another publicly listed independent power generation firm.

The success of Canadian Hydro could not have been achieved without the extraordinary effort of all employees and directors. We are truly grateful for the hard work of our people and proud that Canadian Hydro is Clean, Simple & Sound™.

Canadian Hydro is confident that the disciplined focus on environmental stewardship and growth, empowering employees, acting with integrity, and providing solid economic returns to investors will result in the realization of its vision of being Canada's premier producer of green power.

On behalf of the Board of Directors,

John D. Keating
Chief Executive Officer

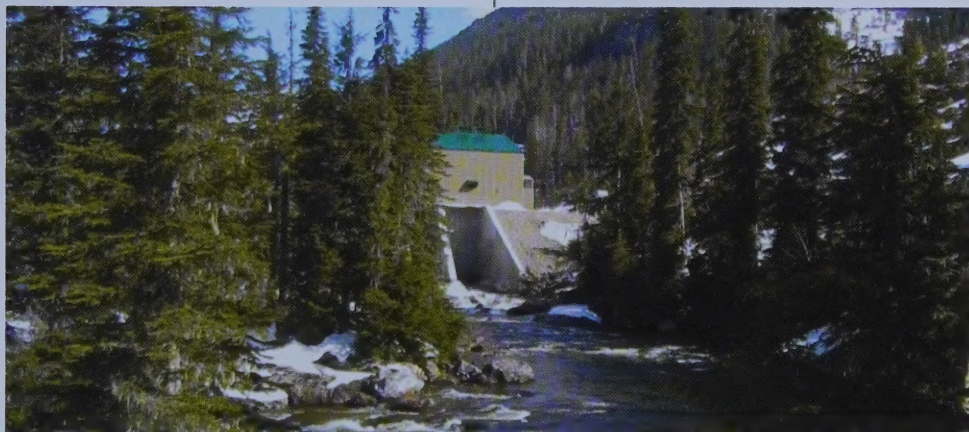
Five Year Historical Summary

	2002	2001	2000	1999	1998
FINANCIAL RESULTS (\$)					
Revenue	16,795,608	15,608,120	17,745,163	9,553,909	6,127,260
Cash flow from operations*	6,152,123	5,649,434	6,350,109	3,670,039	2,034,656
Per share (diluted)	0.12	0.14	0.22	0.13	0.07
Net (loss) earnings*	(3,366,592)	3,700,547	2,770,303	1,307,316	416,971
Per share (diluted)	(0.07)	0.09	0.10	0.05	0.01
Capital expenditures	28,093,696	45,915,247	4,912,607	7,195,307	4,875,576
Total assets	164,432,966	140,650,955	80,900,367	69,752,680	40,859,888
Long-term debt	66,910,572	40,779,754	30,914,426	37,206,193	20,969,595
Shareholders' equity	71,107,330	65,995,879	31,725,956	16,953,699	15,476,383
Common shares outstanding;					
Basic	52,590,539	48,151,301	28,062,427	27,137,427	26,937,427
Fully diluted	61,612,761	60,391,423	41,302,707	29,882,427	29,603,427
Net book value per share	1.35	1.37	1.13	0.62	0.57
Return on average capital employed**	10%	10%	16%	14%	11%
Cash flow return on average shareholders' equity	9%	12%	26%	23%	19%
Net (loss) income return on average shareholders' equity	(5%)	8%	11%	8%	4%
OPERATING RESULTS					
Installed capacity – MW (gross)	95.4	95.4	69.4	48.5	29.0
Installed capacity – MW (net)	88.9	88.9	62.9	46.8	27.3
Electricity generation – MWh (gross)	315,105	264,529	259,632	184,551	127,755
Electricity generation – MWh (net)	293,881	245,113	235,160	176,492	120,054
Electricity generation – MWh (net)					
British Columbia	48,238	44,432	53,378	60,480	46,277
Alberta	181,690	140,536	117,840	63,589	29,863
Ontario	63,953	60,145	63,942	52,423	43,914
Hydroelectric	171,933	147,328	163,480	144,157	120,054
Wind	118,660	80,507	59,766	32,335	–
Natural Gas	3,288	17,278	11,914	–	–
Electricity generation sold under long-term contract	82%	84%	83%	96%	97%
Average price received (\$/MWh)	57.15	63.68	75.46	54.02	51.04
STOCK MARKET					
Price range (\$ per share)					
High	2.78	3.45	3.20	1.10	1.60
Low	1.80	1.75	0.72	0.65	0.90
Close	2.24	2.05	2.99	0.75	1.05
Volume (shares)	5,730,891	12,329,250	9,845,600	2,398,400	3,810,400

*Before preferred share dividends for 1998.

**The ratio of earnings before income taxes, interest on long-term debt, depreciation, and impairment of assets to average capital assets, excluding construction-in-progress.

Environmental, Health and Safety Policy



Environmental stewardship is the foundation upon which we have built our business. It is the framework of the vision and planning that will carry our company into the future. For Canadian Hydro, environmental stewardship is not only the secret to our success, it is a way of life. We believe that environmental stewardship begins with the health and safety of our employees, extends to our community, and leads to the prevention of pollution.

Our commitments to our employees, our community and the environment are of utmost importance. These commitments are reflected in our guiding principles:

- We strive to meet or surpass all legislative, regulatory and other adopted requirements;
- We fully integrate health, safety and environmental considerations into corporate planning exercises and operational activities;
- We strive to continually improve our performance through achieving and advancing health, safety and environmental objectives and targets, including pollution prevention;
- We undertake all our activities in a manner that

identifies, assesses and manages all health, safety and environmental risks;

- We engage communities, governments and other stakeholders in meaningful dialogue to address health, safety and environmental concerns; and
- We advance our ideals through implementation of an effective and efficient health, safety and environmental management system.

By ensuring safe operation of our facilities, promoting environmental stewardship, and creating value for our customers and shareholders, we will continue to build a sustainable business for the long-term.

John D. Keating,
Chief Executive Officer

Ross Keating,
President and Chief Operating Officer

[simple]

in a simple manner... capturing energy naturally®

2002 vs. 2001 Electricity Generation – by Province and Technology

		Electricity Generation – MWh ¹		
	Size (MW)	2002	2001	Variance
British Columbia	10.0	48,238	44,432	+ 9%
Alberta	68.0	181,690	140,536	+ 29%
Ontario	10.9	63,953	60,145	+ 6%
Totals	88.9	293,881	245,113	+ 20%
Hydroelectric	35.5	171,933	147,328	+ 17%
Wind ²	47.4	118,660	80,507	+ 47%
Natural Gas	6.0	3,288	17,278	- 81%
Totals	88.9	293,881	245,113	+ 20%

¹ Reflecting CHD's net interest.

² Cowley North and Sinnott Wind Plants became operational in September 2001.

REPORT ON OPERATIONS

Canadian Hydro (CHD) owns and operates nine hydroelectric, three wind and one gas-fired power plants in the Canadian provinces of British Columbia, Alberta and Ontario. The Company began and exited the year with 88.9 MW of generation capacity. All twelve of CHD's water and wind plants have been certified under Environment Canada's "Environmental Choice" program as EcoLogo® Certified emissions-free energy sources.

2002 OPERATIONS

British Columbia

CHD has operated the Akolkolex Hydroelectric Plant since commissioning in 1995. Since the control room fire of 2001, the plant has seen a significant overhaul, which included a new control system, generator exciter, radio and SCADA systems. The powerhouse bridge crane was re-built, and the interior and exterior of the powerhouse was completely cleaned and re-painted. Both turbines were re-built last year and have operated without incident throughout 2002.

When the Pingston Hydroelectric Plant is commissioned in March 2003, one operator and 30 MW (15 MW net) will be added to the B.C. operations. With this, B.C. will become the province with the highest hydroelectric capacity out of all provinces where CHD operates.

Alberta

CHD operates four hydroelectric, three wind and one gas-fired power plants in Alberta. The Company began its operations in Alberta when it commissioned the Belly River Hydroelectric Plant in 1991. Since then, CHD has developed, constructed and operated the Waterton, St. Mary and Taylor Hydroelectric Plants; acquired the Cowley Ridge Wind Plant, added five new turbines to this plant, and in 2001, constructed the Cowley North and Sinnott Wind Plants. Electricity deregulation coupled with high electricity prices in the late 1990's created opportunities for the Company to enter the merchant energy arena with Drywood, Taylor, Cowley North, and Sinnott (35,000 MWh per year for five years are sold to Enmax from these wind plants). However, with low Power Pool of Alberta (Pool) spot prices in 2002, the Company continues to believe in its strategy of selling the majority of its electrical generation on a long-term basis.

In July, lower Pool prices, combined with low spark spreads, resulted in the temporary shutdown of the gas-fired Drywood Plant. This plant is ready for operation, and will be put back into service when Pool and natural gas price fundamentals justify its operation.

On December 7, 2002, all 20 wind turbines at the Cowley North and Sinnott Wind Plants were temporarily shutdown due to the gearbox failure of one of the turbines. Subsequent inspection by the manufacturer's representatives revealed similar issues with four additional machines resulting in the prolonged shutdown of a total of five units. The remaining 15 units were placed back into service on December 15, 2002. The manufacturer has begun the process of replacing the damaged gearboxes, and a full investigation is underway. The manufacturer expects resolution and complete upgrading to take several months. Revenue loss resulting from this temporary shutdown, the cost of repairs to the damaged turbine, and the costs of replacing the damaged gearboxes will be covered by the manufacturer in accordance with their five-year warranty on these 20 turbines. Therefore, no impact on revenues or earnings is anticipated.

Ontario

The Company operates four hydroelectric plants in three centers in Ontario: Appleton and Galetta in the Ottawa valley, Moose Rapids near Sudbury, and Ragged Chute in Northern Ontario, near New Liskeard. Two operators run and maintain the two facilities near Ottawa, and two operators run the Moose Rapids and Ragged Chute facilities.

The low-head Appleton and Galetta plants together consist of seven generating units with a combined capacity of 3 MW. These are challenging plants to operate. Significant upgrades and maintenance activities were completed during 2002 including tailrace gates, gantry, machine refurbishment, and ice boom installation at Appleton; concrete deck refurbishment, machine cavitation repair, and dam upgrading at Galetta.

CHD's largest Ontario plant is Ragged Chute (6.6 MW). It operated exceptionally well throughout 2002. No major maintenance is anticipated in 2003. Although the plant is owned by CHD, the site and weir is leased from Ontario Power Generation (OPG) for royalty consideration. This lease is up for renewal in June 2004. The Company is currently in discussions with OPG and anticipates arriving at a positive solution in 2003.

NEW PLANT ACTIVITY

Pingston Hydroelectric Plant (30 MW; 15 MW net to CHD) – B.C.

By year-end, substantial construction of the run-of-river Pingston Hydroelectric Plant near Revelstoke, B.C. had been completed. The plant is expected to become operational in March 2003, is estimated to generate 160,000 MWh (80,000 MWh net to CHD) per year of emissions-free power, and will represent a 17% capacity growth in 2003 compared to 2002. CHD plans to have this plant EcoLogo® certified as it has done with all of its other hydroelectric facilities. The power and environmental attributes generated from this facility have been contracted for 20 years to BC Hydro.

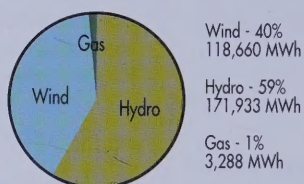
PROJECTS IN DEVELOPMENT

Pingston Expansion Hydroelectric Plant (15 MW; 7.5 MW net to CHD) – B.C.

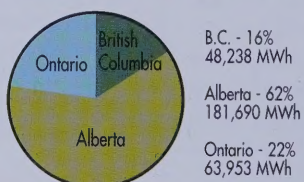
In late 2002, CHD and its 50% partner, Brascan Power, began working on regulatory approvals for a 15 MW

Electricity Generation
(MWh net)

2002 Generation By Technology



2002 Electricity Generation By Province



(7.5 MW net to CHD) expansion of the existing Pingston Hydroelectric Plant. The expansion consists of a third, 15 MW turbine, an extension to the powerhouse, and 600 metres of buried penstock from the lower tunnel outlet to the powerhouse. Commencement of construction is subject to regulatory approvals and financing. This expansion is expected to generate an additional 40,000 MWh per year of energy and environmental attributes, which has been contracted for 20 years to BC Hydro.

Grande Prairie EcoPower™ Centre (25 MW) – Alberta

Construction on this 25 MW biomass cogeneration plant is expected to commence once the Company has contracted up to an additional 80,000 MWh per year on a long-term basis, and debt financing has been obtained. CHD anticipates construction to take one year, once commenced. Canfor will purchase approximately 35,000 MWh per year of power and environmental attributes annually, as well as steam heat from this plant under a "life-of-project" contract. An additional 22,000 to 37,000 MWh per year of power has been contracted for 15 years to the City of Grande Prairie. This facility will generate approximately 175,000 MWh per year.

The proposed design will be a showcase facility that will result in an estimated 85% reduction of particulate emissions from Canfor's Grande Prairie and Hines Creek mills through the removal of existing wood residue incinerators,

and the significant reduction of greenhouse gas emissions through the displacement of other polluting power sources. The project will also have a positive economic impact on the City of Grande Prairie through the creation of 20 new temporary and permanent jobs for its residents. The Company plans to have this plant EcoLogo® certified.

Upper Mamquam Hydroelectric Project (25 MW) – B.C.

Located on the Mamquam River, near the Squamish area just north of Vancouver, this run-of-river hydroelectric project consists of an intake, approximately 800 meters of low-pressure tunnel, 800 meters of low-pressure penstock, 150 meters of high pressure steel penstock, and a powerhouse with two or three turbines. The anticipated completion date of late 2004 is contingent upon regulatory approvals and financing. This project is expected to generate approximately 110,000 MWh per year of power and environmental attributes, which has been contracted for 20 years to BC Hydro.

Dunvegan Hydroelectric Project (80 MW) – Alberta

In the first quarter of 2003, the Company anticipates achieving a significant milestone on this project by obtaining approval for the construction and operation of the 80 MW Dunvegan Hydroelectric Project from the Alberta Energy and Utilities Board and the Natural Resources Conservation Board. Should approval be obtained, CHD will spend 2003 seeking long-term contracts for the sale of the power and environmental attributes prior to obtaining financing and commencing construction. The anticipated completion date of late 2005 is contingent upon regulatory approval, market conditions and financing.

Dunvegan is designed as a low-head, run-of-river hydro plant on the Peace River. Due to the size and flow of the river, this plant is expected to operate at an 84% capacity factor, generating 589,000 MWh per year, which represents an increase of 200% over CHD's 2002 electricity generation. The combination of low-impact, renewable energy with a high capacity factor, make this a unique and exciting project.

Otonabee Hydroelectric Project (5.6 MW) – Ontario

The run-of-river hydro facility is planned to be constructed adjacent to two of the locks owned by the federal government on the Otonabee River section of the Trent-Severn Waterway near Peterborough. Due to the relatively small size of this project and uncertainty surrounding deregulation in Ontario, the Company intends to sell this project in 2003.

Sinnott Infill Wind Project (30 MW) – Alberta

CHD has optioned the remaining undeveloped portion of the lands where the existing 6.5 MW Sinnott Wind Plant is located, which will allow for the development of a 30 MW wind project. While regulatory approvals and long-term power sale contracts are required prior to proceeding with this project, the introduction of the federal government

wind incentive in 2002 (i.e. \$10 per MWh of generation, for the first ten years of operation) significantly improves the economics of wind and, thus, the likelihood of this project proceeding.

Wind Prospects (100 MW) – Alberta

CHD has identified several ideal areas for wind development in southern Alberta, and has optioned the land with owners. Wind monitoring stations have been erected and data is being collected in order to determine the optimal areas for future wind development. Again, regulatory approvals and long-term power sale contracts are required before these prospects can be developed. The federal government wind incentive greatly enhances the likelihood of development of these prospects occurring.



[locations]

Development Projects

14	hydro	Upper Mamquam
15 BC	hydro	Pingston*
16 BC	hydro	Pingston Expansion
17 Alberta	hydro	Dunvegan
18	biomass	Grande Prairie
19	wind	Sinnott Infill
20	wind	Wind Prospects
21 Ontario	hydro	Otonabee

* Under construction

Operating Plants

1 BC	hydro	Akoloklex
2 Alberta	hydro	Belly River
3	hydro	St. Mary
4	hydro	Taylor
5	hydro	Waterton
6	gas	Drywood
7	wind	Cowley Ridge
8	wind	Cowley North
9	wind	Sinnott
10 Ontario	hydro	Ragged Chute
11	hydro	Moose Rapids
12	hydro	Galetta
13	hydro	Appleton

Operating Plants & Development Projects

OPERATING PLANTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser	Contract Expiry
BC	hydro	Akolkolex	10.0	100%	BC Hydro	Apr 1, 2015
Alberta	hydro	Belly River	3.0	100%	TransAlta	Mar 28, 2011
	hydro	Waterton	2.8	100%	TransAlta	Nov 6, 2012
	hydro	St. Mary	2.3	100%	TransAlta	Dec 10, 2012
	hydro	Taylor	13.0	50%	Spot	n/a
	wind	Cowley Ridge	21.4	100%	TransAlta/ Shell/spot	Dec 31, 2013
	wind	Cowley North	19.5	100%	ENMAX/spot	Aug 31, 2006
	wind	Sinnott	6.5	100%	ENMAX/spot	Aug 31, 2006
	gas	Drywood	6.0	100%	Spot	n/a
Ontario	hydro	Ragged Chute	6.6	100%	OEFC ¹	Mar 7, 2006
	hydro	Moose Rapids	1.3	100%	OEFC ¹	Nov 13, 2027
	hydro	Appleton	1.4	100%	OEFC ¹	Mar 1, 2024
	hydro	Galetta	1.6	100%	OEFC ¹	Jan 15, 2009
Operating Projects						
			100% share	95.4		
			Company share	88.9		

DEVELOPMENT PROJECTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser
BC	hydro	Pingston ²	30.0	50%	BC Hydro
	hydro	Pingston Expansion	15.0	50%	BC Hydro
	hydro	Upper Mamquam	25.0	100%	BC Hydro
Alberta	biomass	Grande Prairie			Canfor/City of Grande
		EcoPower™ Centre	25.0	100%	Prairie/Pursuing
	hydro	Dunvegan	80.0	100%	Pursuing
	wind	Sinnott Infill	30.0	100%	Pursuing
	wind	Wind Prospects	100.0	100%	Pursuing
Ontario	hydro	Otonabee	5.6	100%	Pursuing
Development Projects					
			100% share	310.6	
			Company share	288.1	
Operating and Development					
			100% share	406.0	
			Company share	377.0	

¹ Ontario Electricity Finance Corporation

² Under Construction

Every Household Impacts the Environment

Did you know that your daily activities greatly impact the environment?

According to the David Suzuki Nature Challenge, the average Canadian household directly or indirectly generates 20,705 kilograms of greenhouse gas emissions per year. It is interesting to note that indirect emissions associated with the utilities required to run the household accounts for only about 30% or 6,335 kilograms per year. So what's up with the rest?

Other sources of household emissions include transportation, food production and other household operations—like mowing the lawn, burning trash in landfills, etc. Individuals can help reduce these emissions levels by taking the following factors into consideration:

- Be aware of where your food comes from. Question how much energy has been used to transport it from its place of origin to your table.
- Recycle. Newspapers and other 100% recyclable products still make up a large percentage of our daily trash. Recycling one glass bottle saves enough energy to light a 100-watt bulb for four hours.
- Turn out the lights when you leave a room. Turn down the thermostat. Turn off the TV if no one is watching.
- Whenever possible, walk. You'll save money on gas and significantly reduce fossil fuel emissions.
- Compost biodegradable waste.
- Buy RECs from Canadian Hydro.

Remember, small changes in small habits can make a huge impact. By being more 'energy aware' you could cut your household's emissions by up to 30%. You'll save money, as well as help to save the planet.

You CAN make a difference.

It's Not Easy Being Green

Kermit the Frog, of Muppets fame, sang the blues about how difficult it is to be to be 'green.' Life couldn't have been that hard for Kermit, as his 'green' was only skin-deep. Green power producers, on the other hand, face a more formidable challenge. There are a number of important criteria that must be met for a power generation facility to be approved as 'green' under the federal government's EcoLogo® Certification Program. In essence, a green power producer must be green right to the core.

The facility must meet (or exceed) the specified emissions control standards. This includes emissions of pollutants such as, sulphur, hydrocarbons, nitrogen and particulates; as well as greenhouse gases and production of hazardous or solid waste. Standards for water quality and watershed integrity, mitigation of impact on plants and animals, sustainability of feedstock, fuel and minimal water consumption must also be investigated. If a power plant meets (or exceeds) these standards they will be awarded the EcoLogo® certification.

The long-term benefits of being certified 'green' go far beyond simply meeting the criteria established in a government document. The spin-off benefits include:

- Cleaner air quality in nearby communities and a resulting improvement to public health;
- Better conservation and management of water resources and improvement to the environment;
- Economic development through job creation;
- Expansion of the tax base in rural areas;
- The addition of economically stable sources of energy to the mix of generation capacity.

In keeping with their commitment to environmental stewardship and their investors, Canadian Hydro is proud that all of their wind and water facilities are EcoLogo® certified.

[pingston]



Harnessing The Power of the Pingston Creek

The most technically challenging project in Canadian Hydro's history

When Ross Keating watches the sunset over a river valley you can rest assured that he would take a moment to appreciate its glorious colors and revel in its natural beauty. But chances are good that having done this, he will soon be making calculations in his head - noting the quantity of water, the grade of the stream and the features of the surrounding landscape. For Ross Keating, an engineer by profession and the President of Canadian Hydro Developers, Inc., there is potential for power generation in almost every flow of water.

As a founding partner of Canadian Hydro, Ross and his brother, John Keating, have spent more than a decade harnessing the power of wind and water, all the while fostering a healthy respect for the environment. In the process, they have built a multi-million dollar corporation and earned the distinction of being one of Canada's most "ethical investments."

With about a dozen wind and run-of-river hydroelectric power projects to their credit, the team at Canadian Hydro is nearing completion of their newest and most complex, development to date - the 30 MW \$60 million Pingston Hydroelectric Plant in British Columbia.

"While the bulk of the activity for the Pingston Project has taken place in the past couple of years, it has been eight years in the making," explains Ross Keating. "We first reviewed the site in 1994, conducted an environmental assessment and then applied for the necessary development permits. In the first quarter of 1995, we submitted a

bid in response to a 'Request for Proposals' to supply the power to BC Hydro. We were one of 5 projects on the final short-list, but eventually lost out to a gas-fired project."

Several months had passed while they waited patiently through this process - only to end in disappointment - but enthusiasm for the project did not wane. Canadian Hydro had already invested significant time and money and they were not going to give up hope of seeing this excellent site developed.

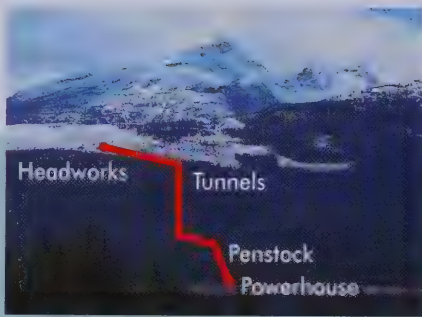
Not long after they received the news that their project was not in the bidding for sale of power to BC Hydro, Brascan Power of St. Saint Marie, Ontario, approached Canadian Hydro with an offer to become 50 percent partners in the Pingston Project.

Canadian Hydro chartered a small aircraft to fly senior Brascan Power personnel, to Revelstoke, B.C. to tour the proposed site. As luck would have it, the weather was bad and the bumpy plane ride was nerve wracking. Since they couldn't land in Revelstoke to go on the ground tour, they simply flew over the proposed development site. Between prayers for safety and promises for cooperation, the Pingston development partnership deal evolved in the air, somewhere over a forested area of British Columbia.

With the added cash and confidence of a new 'joint venture' partner and the environmental assessment approval in place, Canadian Hydro boldly started construction in the spring of 2001 - despite the fact that a

Continued on page 15

Pingston Timeline



▶ **1994**
Secured site by applying for water license

▶ **1995**
MARCH
Responded to BC Hydro Request for proposal (RFP) for supply of electricity

▶ **1996**
MAY
BC government takes over review of bids, appoints panel



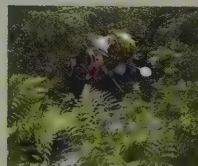
▶ **1998**
MARCH
Applied to BC Environmental Assessment Office for project approval under the BC Environmental Assessment Act

▶ **1995**
JANUARY
Feasibility study completed, commenced environmental studies



▶ **1994**
Identified Site

▶ **1996**
DECEMBER
Notice that our Pingston bid to BC Hydro was unsuccessful - contract awarded to co-gen

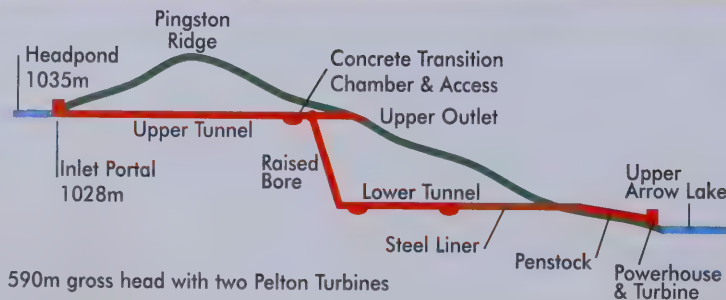


▶ **1995**
NOVEMBER
Short listed by BC Hydro, 3 hydro and 2 large co-generation plants

▶ **1999**
MAY
Received approval to construct - BC and Federal governments



▶ **2000**
NOVEMBER
Commenced pre-construction activities on-site





2001

MARCH

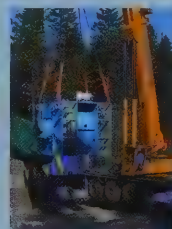
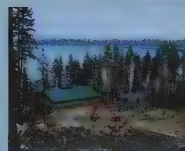
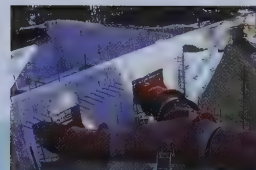
Commenced construction on merchant basis, awarded turbine/generator contract



2002

APRIL

Filled headpond



2001

DECEMBER

Intake construction completed



2002

NOVEMBER

Powerhouse completed, equipment installed



2002

DECEMBER 19TH

Energized power line, and substation



2003

MARCH

Fill system with water and commission plant



2002

JANUARY

Power line and substation construction commenced



2002

DECEMBER

Tunnel substantially completed, contractor de-mobilized



2002

OCTOBER

Power line and substation construction completed



2001

APRIL

Tunnel contract awarded, contractor mobilized to site



Technical Specifications

Turbines	ESAC Energie
Turbine Type	2x Pelton with 2 jets
Generator Type	Leroy Somer
Generator Speed	600 rpm
Plant Capacity	30 MW

Avg. Annual Energy	160,000 MWh/year
Net Head	556.87 m
Rated Flow	3.21 m ³ /s per turbine
Machine Speed	600 rpm
Runner Diameter	1.34 m

clean simple & sound™

guaranteed sales contract was not yet in place. Like the eternal optimist in the movie, 'Field of Dreams', the Keatings knew that, "If we build it, they will come."

Not surprisingly, they were correct. Just a few months after construction started, BC Hydro issued another 'Request For Proposals' and this time, Canadian Hydro was a successful bidder.

When the plant begins operation in spring 2003, it will produce 30 MW of electricity, but it has been constructed to allow the installation of a third turbine in late 2003, which will bring the total plant capacity to 45 MW. All of this power is sold to BC Hydro under a 20 year power purchase agreement.

What Makes Pingston Special?

With a gross head (vertical drop) of 590-meters, this is one of the highest run-of-river plants in Canada. What proved to be the biggest challenge in this project is something that is completely invisible to the naked eye. Buried deep in the hard rock of the mountain is a 4-kilometer tunnel, including a 450-metre raised bore, that efficiently carries water from the Pingston Creek down to the power generation facility on the shore of Upper Arrow Lake.

Power is generated from two Pelton turbines—that look like large stainless steel wheels with a series of large buckets around their perimeters. These special 'impulse turbines' are imported from France and are specially designed to run efficiently, even if water flows are low.

The first stage of construction involved a crew working 24/7 to drive a 3 X 3.5 meter tunnel, at a two percent grade, through two kilometers of rock from Pingston Creek. At the same time, a second crew was driving a lower tunnel from a location near the powerhouse. At a certain point, deep inside the mountain, the two tunnels would meet, via a 450-meter shaft, to form the channel that would soon convey six cubic meters per second of water to the Pelton machines in the powerhouse. Miraculously, thanks to the wonders of technology and careful calculations, the upper and lower tunnels did meet.

While the tunneling teams were busy boring their way through solid rock, other crews were building the 65 kilometers of power lines that would ultimately connect them to the BC Hydro power grid in Revelstoke, as well as the penstock, powerhouse, intake and headpond.

During this entire time, Canadian Hydro also worked closely with the Federal Department of Fisheries and Oceans to minimize the potential impact of the development on any fish in Pingston Creek. The stream has no known native species, but does sustain a population of rainbow trout that were introduced in the 1970s by B.C. Environment. There are Kokanee salmon in Arrow Lake, but they do not use Pingston Creek as a spawning ground due to its steep gradient and waterfalls.

"Upstream from the weir, we established a head-pond which is expected to enhance trout populations," explains Keating. Rock reefs were created to provide refuge and rearing habitat within the headpond and upstream of the headpond habitat complexity was improved by the creation of eight "natural" logjam structures. "Downstream, we constructed a fish spawning channel with suitable flow, grade and gravels."

"At its peak, the Pingston project had about 60 people working on site," adds Keating. "Where possible, we hired local contractors. It was important to us to show our support of the local economy and to establish a rapport with the people who live nearby, in Revelstoke and Nakusp. It is vital that they recognize we have a long-term commitment to the development, to the environment and to them. We will continue to support the local economy through payment of provincial and municipal taxes and hiring of contractors for such things as road and facility maintenance."

Lights on!

December 19, 2002 was a big day for the Canadian Hydro crews! On this day, the power line was energized, enabling the commissioning of the two main transformers and station service equipment. While it will still be a couple of months until water flows through the turbines, there is a light at the end of the tunnel—Pingston is expected to be fully operational by spring 2003.

"Completion of this project gives us very significant and valuable experience in tunneling," says Keating. "This expertise can now be applied to other similar projects across Canada and really broadens the scope of what we can do."

With the construction of the Pingston Project soon to be behind them, who knows what lies ahead for Ross and John Keating and the crew at Canadian Hydro? Whatever the future brings, one can be certain it will be full of challenges, full of promise and fueled by a quirky combination of foresight, ingenuity and engineering.

What on Earth's a REC?

The acronym "REC" stands for 'Renewable Energy Certificate' and it is proof that a power generation facility supplies low-impact renewable energy. Quite simply, it is the 'green' in 'green power.'

All renewable energy production facilities produce both electricity and environmental attributes, which are referred to as RECs. Just like electricity, RECs are also a commodity that can be bought and sold amongst individuals or corporations. Buying a REC has the same effect as buying green power, without creating a burden on the renewable energy generator to manage the cost and complexity associated with electricity supply contracts.

When a generation facility produces electricity it is transported to the nearest power grid and 'pooled' with electricity from all other sources. As a result, it is impossible to ensure that even a single kilowatt of the specific green electricity is actually delivered to any single electricity consumer. Think of it like wiring \$100 to a friend in another city. They will get \$100, but it will not be the same \$100 bill that you deposited into your bank account.

As a certified 'green' power producer, Canadian Hydro generates RECs on an annual basis. They are then transferred to individuals or corporations to offset the indirect emissions that are associated with their electrical consumption. The average Canadian household can purchase RECs from Canadian Hydro to offset 100% of their indirect emissions associated with their household utilities for \$15 per month.

What is the Kyoto Accord?

The Kyoto Accord is an international treaty whereby countries agree to reduce the amount of greenhouse gases they emit, if their neighbors do likewise. It is a very complex agreement that allows trading pollution credits between countries. Currently Kyoto calls for a 6% emissions reduction in Canada.

What are 'Greenhouse Gases'?

Greenhouse gases result from the burning of fossil fuels and forests. These gases, especially CO₂, collect in the atmosphere and create a barrier that traps heat close to the earth, much like a giant greenhouse. This heating is called 'global warming.'

Why do we need to reduce Greenhouse Gases?

The weight of scientific evidence that is associated with global warming suggests that we need to address the issue of emission reductions. After millions of years of remaining constant, greenhouse gases levels started to climb sharply at the beginning of the industrial revolution. This is not a natural increase, but a side effect of human use of fossil fuels and forests.

Is there anything we can do to help?

Greenhouse gas emissions are really a measure of inefficiency. There are many low cost production opportunities to improve the low standards that exist today. Canadians are a resourceful people and will adapt to the requirements of the Kyoto Protocol. There are many things that both individuals and corporations can do to greatly reduce greenhouse emissions without incurring large costs.

How can this be good for business?

Canadian Hydro represents a stellar example of how environmental stewardship is compatible with successful business development. If any given company is determined to make a difference, then there are things they can do to help. Supporting the development of low-impact electricity generation facilities is just one of them.

Independent Asset Evaluation

McDaniel & Associates Consultants Ltd., a highly respected independent firm of engineers, has evaluated each CHD plant as of January 1, 2003. The purpose in engaging McDaniel & Associates is to provide investors and shareholders with third party confirmation of future cash flow estimates.

Using the McDaniel & Associates results, management has prepared the following "pre-tax net asset value" (as opposed to "fair market value") of the Company's fully diluted common shares outstanding. Value has been computed assuming a 10% discount factor on future cash flows of the Company's thirteen generating plants, projects under construction and certain development prospects.



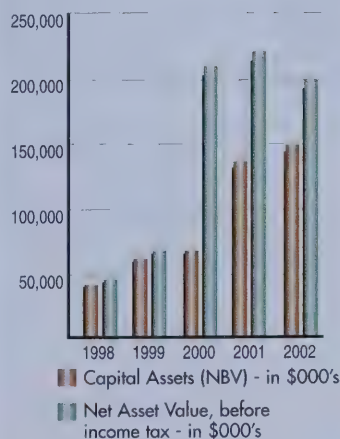
Revenues can be predicted with some degree of reliability since the Company has, to varying degrees, sold forward approximately 80% of its output under long-term sales contracts. Using the discounted cash flows determined by the independent engineers, adjustments for long-term debt, working capital, and equity that would be received from potential exercise of warrants and options (to account for full dilution), have been made. The Company estimates that income taxes will not be payable for several years as substantially all the Company's tax pools are represented by accelerated tax write-off classes.

CASH FLOW, NET OF OPERATING EXPENSES, DISCOUNTED AT 10% (PRE-TAX): ⁽¹⁾ ⁽³⁾

(\$ millions)

McDaniel & Associates evaluation @ 10%:

Operating plants and projects under construction ⁽²⁾	187.0
Development projects, risked at 50% ⁽³⁾	56.1
Working capital	3.3
Long-term debt, excluding current portion	(66.9)
Potential exercise of options	4.9
Potential exercise of warrants	13.7
Net Asset Value, before income tax	198.0
Per Share ⁽⁴⁾	\$3.21



- (1) Development Projects are risk adjusted by 50% of the estimated future cash flows discounted at a rate of 10%.
 (2) Includes certain projects that are under construction in 2002 (Pingston) and scheduled to commence construction in 2003 (Grande Prairie EcoPower™ Centre).
 (3) Includes certain projects that are at various stages of permitting for construction, namely Pingston Expansion, Upper Mamquam, Dunvegan and certain wind prospects.
 (4) Based on 61,612,761 fully diluted shares outstanding at December 31, 2002.
 Using an 8% discount rate increases the pre-tax net asset value to \$4.80 per share.
 If only operating plants and projects under construction are considered, the pre-tax net asset value would be \$2.30 per share.

[sound]



creating sound financial returns for decades to come



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A should be read in conjunction with the audited Consolidated Financial Statements and related Notes included in this Annual Report.

VISION, CORE BUSINESS AND STRATEGY

Canadian Hydro Developers Inc.'s (the "Company" or "CHD") vision is to be the premier independent producer of green power in Canada focusing on environmental stewardship and growth, empowering employees, acting

with integrity, and providing solid economic returns to investors. This is a 10 year vision and was set in early 2002.

CHD is the only company in Canada that provides a diversified suite of EcoLogo® certified, low-impact, renewable power from economic projects. We want to capitalize on the demand for green power and the economics that present themselves today, while maintaining our entrepreneurial spirit and ensuring our future. Our five year goal, which was set in early 2002, is to exit 2006 with 300 MW of green power plants in production and have an inventory of active prospects of at least 500 MW to foster future growth.

KEY PERFORMANCE DRIVERS

CHD believes the following key performance drivers are critical in creating value for the Company's investors:

- Trend towards and concerns over the environment, which drives demand for low-impact, renewable power.
- Price of power and liquidity of market, which is driven by growth of population and economy, as well as the price of fossil fuels, particularly, natural gas.
- Weather, which impacts both hydroelectric and wind generation.
- Interest rates and access to equity, which affect the cost of capital and economic rate of return on power plants.
- Effect of non-market forces such as government incentives for renewable energy, regulatory changes, and the Kyoto Protocol, which drive market uncertainty, the ability to operate and the economic rate of return on power plants.
- Reputation, which drives ability to access capital.
- Ability to operate power plants successfully.

There are several key performance measures the Company uses to monitor and assess its performance relative to the key performance drivers, the implementation of its strategy, and the achievement of its goals and vision. The main performance measures are as follows:

- Reputation and employee morale. CHD has a reputation of integrity and an entrepreneurial spirit. We believe it is critical to maintain this reputation and spirit in order to keep employee morale high and, ultimately, be a successful company.
- Economic rate of return on power plants. This is defined as individual power plants having an unlevered, pre-tax rate of return above a certain hurdle rate set by CHD, which is not disclosed for competitive reasons.
- Return on average capital employed ("ROACE"). This is defined as the ratio of earnings before income taxes, interest on long-term debt, depreciation, and impairment of assets to average capital assets, excluding construction-in-progress. CHD targets a 10-15% ROACE depending upon the year and when projects under construction are anticipated to be operational.
- Mixture of debt and equity. The Company currently targets a 60/40 debt/equity mixture, which it believes is an appropriate mix given the current economic conditions in Canada, the growth phase of the

Company, and the long-term nature of CHD's assets.

- Installed MW capacity growth. This is defined as installed megawatts in operation at year end compared to the previous year. While annual growth is important and targets are set for each year, the five year goal of 300 MW is the Company's focus.
- MWh growth. This is defined as the increase in megawatt hours of electricity production in the current year compared to the prior year. In conjunction with MW capacity growth, the Company sets production targets for each year.
- Percentage of generation under long-term contract. This is defined as the percentage of total electrical generation subject to contracts having an initial term of at least five years, and the purchaser of the power having an acceptable financial rating. The Company currently targets 75% of generation under long-term contract, which ensures steady, predictable, and long-term cash flow.
- MW of active prospects. This is defined as new projects that, generally, meet the Company's evaluation criteria of being Clean, Simple & Sound™. While no annual targets are set, the Company has a five year goal of 500 MW of active prospects.
- Technological and geographical diversification. By having an appropriate mix of low-impact, renewable power plants (e.g. hydroelectric, wind, and biomass), located in different parts of the country (i.e. B.C., Alberta and Ontario), CHD reduces its exposure to large overall variations in power generation.
- The Company has developed a "non-market forces" plan to ensure potential changes to regulations and laws that affect the power industry are known, understood, and managed to the extent possible. This plan also focuses the Company on the promotion of renewable energy with various levels of government in Canada.
- Environmental stewardship and safety. The Company has an environment, health and safety policy, which is disclosed earlier in this Annual Report. Targets and objectives are set within that policy.

CAPABILITY TO DELIVER RESULTS

Non-Capital Resources

Employees are the most critical non-capital resource in order for the Company to achieve its goals set out in the strategic plan. A formal human resource plan has been developed in order to ensure the Company focuses on improving and maintaining its entrepreneurial spirit and

employee morale. As part of this plan, CHD has recently assessed its current staffing levels, including an analysis to determine if levels are adequate and accountabilities are assigned. In addition, a succession plan has been developed should a key employee retire or leave the Company. While the Company plans to hire additional employees for the management of large new construction projects and the operation of new power plants, CHD believes it has sufficient human resources to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments, and has no off-balance sheet financing arrangements. In order to fund its planned growth, CHD anticipates obtaining financing through a combination of cash flow from operations, existing and new debt facilities, and new equity issuances. Due to the long-term nature of its assets and stable cash-flow due to long-term contracts for the majority of its generation, the Company believes that it must provide an annual 10-15% ROACE in order to be financially accretive for shareholders, and to minimize CHD's cost of capital.

Systems and Processes

The Company's operational systems and processes were reviewed in 2002 in light of the strategic plan. Several modifications were made with regards to compensation systems, risk management systems, the evaluation criteria for new projects, management of projects under construction, and the implementation of a new integrated scheduling and e-mail system to facilitate communications. CHD believes it has sufficient systems and processes in place to execute its strategic plan.

RESULTS OF OPERATIONS

A year of continued growth was experienced by the Company; from improved revenue, cash flow from operations, and record generation over the previous year's record, to the first full year of operations of the Cowley North and Sinnott Wind Plants, and the substantial completion of construction at the Pingston Hydroelectric Plant. Generation increased in all three provinces where CHD operates resulting from improved water levels in 2002 and increased wind generation from the new wind plants. Lower Power Pool of Alberta ("Pool") prices, which resulted in the temporary shutdown of the gas-fired

Drywood Plant in 2002, the one-time provision for the impairment of this non-core plant and related assets at year end, and a decrease in the average price received by the Company for its generation, offset the gains made from the record generation in 2002.

Revenue

Revenue in 2002 increased 8% to \$16,795,608 compared to \$15,608,120 in 2001 on record generation of 293,881 MWh in 2002 compared to 245,113 MWh in 2001. The increase in revenue was primarily due to:

- Higher hydroelectric generation, resulting from increased 2001/2002 winter snow packs in B.C. and Alberta, and a wet and warm 2001/2002 winter and summer in Ontario (2002 - 171,933 MWh; 2001 - 147,328 MWh); and
- Higher wind generation, resulting from the first full year of operations at the Cowley North and Sinnott Wind Plants (2002 - 118,660 MWh; 2001 - 80,506 MWh), notwithstanding wind conditions being at 94% of the eight-year wind levels (2001 - 109%);

offset partially by:

- 47% lower average Pool prices received on the Company's generation exposed to the Pool in 2002 compared to 2001 (2002 - \$43/MWh; 2001 - \$81/MWh), and
- The temporary shutdown of the gas-fired Drywood Plant resulting from lower Pool prices, combined with low spark spreads in 2002.

Approximately 82% of the Company's generation was sold pursuant to long-term sales contracts in 2002 (2001 - 84%), which exceeds CHD's stated target of 75% of generation under long-term contracts. The average price received by the Company for electricity from all operations for 2002 was \$57/MWh compared to \$64/MWh in 2001.

Operating Expenses

Operating expenses decreased 4% to \$4,992,097 in 2002 compared to \$5,192,229 in 2001. Gross margins (revenue less operating expenses; expressed as a percentage of revenue) improved to 70% in 2002 (2001 - 67%). The decrease in operating expenses and corresponding increase in gross margins was due primarily to less natural gas purchased for the Drywood Plant, combined with higher revenues over primarily fixed operating costs.

Depreciation Expense

Depreciation expense increased 50% to \$3,482,358 in 2002 (2001 - \$2,328,569) due to the addition of the Cowley North and Sinnott Wind Plant in late 2001.

Interest Expense, Long-Term Debt and Other Liabilities

Interest on long-term debt (excluding capitalized interest) in 2002 increased 11% to \$2,853,366 compared to \$2,564,466 in 2001. The increase in interest expense was due to increased average long-term debt on completed projects in 2002 compared to 2001, as well as the restructured debt financing, which closed on December 19, 2002.

Capitalized interest associated with construction-in-progress in 2002 was \$1,258,000 compared to \$889,943 in 2001. The increase was due to ongoing draw-downs on the construction line of credit for the Pingston Hydroelectric Plant, which was under construction in 2002.

Long-term debt (including current portion) as at December 31, 2002 was \$71,907,189 compared to \$45,009,568 as at December 31, 2001. The increase was due to the restructured debt financing (the "Loan"), which closed on December 19, 2002, as described above. The Company's debt/equity mixture was 50/50 (2001 - 40/60), below its stated target of 60/40. While the Company was below its target in 2002, the restructured debt financing represented a 15% improvement over 2001's debt/equity mixture. With additional debt financing planned in 2003 for the construction of the Grande Prairie EcoPower™ Centre, CHD anticipates an improvement of its debt/equity mixture towards its target.

At December 31, 2002, CHD was not in compliance with one of its Loan covenants, which requires the Company to maintain a debt service ratio of not less than 1.3:1.0. While the actual debt service ratio was 1.27:1.0, the Company's corporate bankers have waived compliance for this covenant. Management has determined it is likely the Company will be in compliance with all Loan covenant requirements for at least one year from the balance sheet date. Accordingly, the Loan has been classified as a long-term liability.

Administration Expense

Administration expense increased 52% to \$1,913,747 in 2002 compared to \$1,261,476 in 2001, reflecting non-recurring costs, as well as increased rent, salary and benefit costs associated with increased operations. The non-recurring costs of \$338,098 consisted of increased legal costs associated with the First Canadian Electric Inc. ("FCE") dispute (as described in Note 14(a) to the audited consolidated financial statements), and severance costs paid to a former employee of the Company in May 2002. Capitalized administration costs associated with construction-in-progress in 2002 were \$473,612 compared to \$565,268 in 2001. The decrease was due to only the Pingston Hydroelectric Plant being under construction in 2002 compared to three projects in 2001.

Prospect Development Costs

As initial site investigations and project economics did not justify the Company pursuing certain prospective projects, \$123,826 in prospect development costs were written off during 2002.

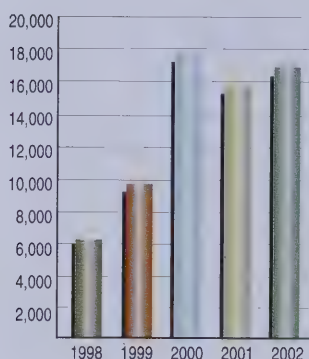
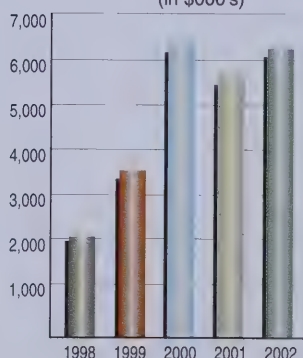
Impairment of Assets

At December 31, 2002, the Company reviewed the net recoverable value of the Drywood Plant as a result of the following:

- The significant decrease in Pool prices in 2002 and their impact on this merchant plant;
- The temporary shutdown of the plant since July 2002 due to low spark spreads and Pool prices;
- CHD's strategic planning process that had determined that natural gas fired technology does not fit with its focus on environmentally-friendly, low to zero fuel cost input, long-life plants; and
- Due to the plant being a non-core asset, plans for the Company to eventually divest of this plant.

CHD used the estimated future undiscounted cash flows for the Drywood Plant, which were prepared by an independent firm of engineers, and adjusted these cash flows based on the Company's plans to eventually sell the plant in order to estimate its value as of December 31, 2002. Based on this estimate of value, in light of the above considerations, the Drywood Plant was written down to its net recoverable value.

Revenue - (in \$000's)

Cash Flow From Operations
- (in \$000's)Return on Average
Capital Employed

In addition, amounts receivable associated with the FCE dispute were written off and provided for at December 31, 2002 (as described in Notes 5 and 14(a) to the audited consolidated financial statements).

The total provision for impairment of assets was \$8,200,000, which reduced net earnings per share by \$0.11 (diluted) for the year ended December 31, 2002. Net earnings per share would have been \$0.04 per share (diluted) for the year ended December 31, 2002, had this provision not been taken. This provision had no impact on cash flow from operations for the year ended December 31, 2002.

Income Taxes

CHD has available tax pools of \$103.7 million (2001 - \$82.7 million) compared to book assets of \$150.3 million (2001 - \$135.1 million). The Company does not anticipate paying cash income taxes, other than in respect of the Cowley Ridge Wind Plant, through its wholly owned subsidiary, for several years. However, the Company is liable for the Federal Tax on Large Corporations and Provincial Capital Taxes in Ontario and British Columbia, which comprise the current tax provision.

Cowley Ridge Wind Power Inc. is fully taxable, but is entitled to recover approximately 175% of cash taxes paid annually (limited to 15% of eligible gross revenue) in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act. This Regulation will apply until the associated power sale agreements expire in 2013 (9.0 MW) and 2014 (9.9 MW).

The future income tax recovery in 2002 increased to \$2,287,469 from a recovery of \$386,382 in 2001. This increase was due primarily to the tax impact of the impairment of assets, which was an increase to net earnings of \$0.05 per share (diluted).

Net (Loss) Earnings and Cash Flow from Operations

In 2002, the net loss was \$3,366,592 ((\$0.07) per share, diluted) compared to net earnings of \$3,700,547 (\$0.09 per share, diluted) in 2001. The decrease in net earnings was due to the one-time provision for impairment of assets (net of taxes), a lower average price received for electricity generation, increased depreciation, administrative expenses, interest on long-term debt and prospect

OUTSTANDING SHARE DATA

	As at February 19, 2003 (unaudited)
Basic common shares	52,590,539
Convertible securities:	
Warrants	5,422,222
Options	3,600,000
	9,022,222
Fully diluted common shares	61,612,761

development costs written-off, offset partially by record electricity generation and lower operating costs in 2002 compared to 2001, as described above. The decrease in net earnings on a diluted per share basis was due to the decrease in earnings and the issuances of equity during the previous year, the proceeds of which were used to finance the construction of new projects.

Cash flow from operations in 2002 increased 9% to \$6,152,123 (\$0.12 per share, diluted) from \$5,649,434 (\$0.14 per share, diluted) in 2001. The increase was due to record electricity generation and lower operating costs, offset partially by increased income taxes, administrative expenses and interest on long-term debt, as described above. The decrease in cash flow from operations on a diluted per share basis was due to the issuances of equity during the previous year.

The ROACE for 2002 was 10%, unchanged from 2001, which is in-line with CHD's stated target of 10%-15%. The Company expects the ROACE to improve in 2003 due to the Pingston Hydroelectric Plant becoming operational and the improved outlook for Pool prices (please refer to the 'Outlook' section of this MD&A).

Capital Asset Additions and Prospect Development Costs

Capital asset additions were \$28,093,696 in 2002 (2001 - \$45,915,247), resulting in a 14% increase in the net book value of capital assets prior to the write down of the Drywood Plant described above. Prospect development

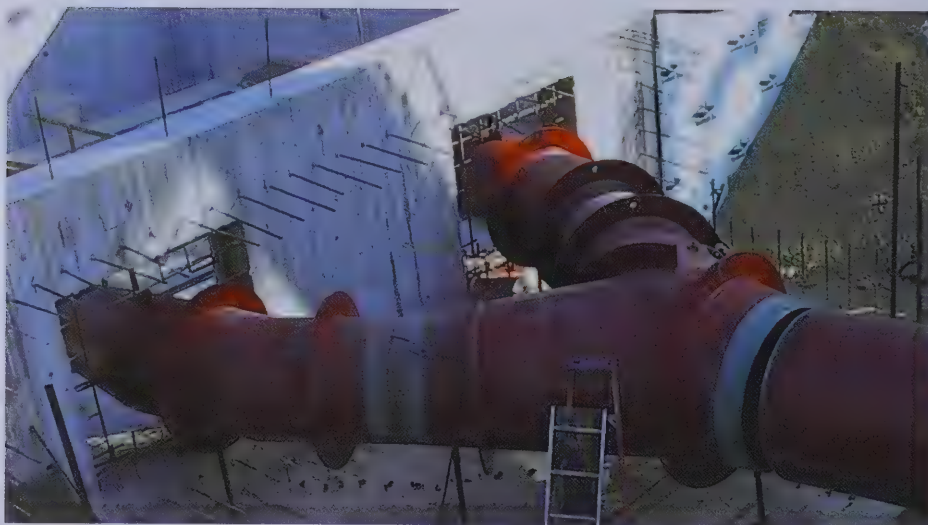
costs were \$2,885,700 in 2002 (2001 - \$3,098,109). These significant investment activities relate to construction costs and equipment purchases incurred for the Pingston Hydroelectric Plant (15 MW net), and the Grande Prairie EcoPower™ Centre (25 MW), as well as other prospects such as Dunvegan. At year end, the Company had completed the majority of construction at the Pingston Hydroelectric Plant.

Capital Resources and Liquidity

For the year ended December 31, 2002, the Company raised \$8,478,043 (net, before taxes - \$9,309,516) from the following transactions:

- The exercise of 3,155,905 common share purchase warrants issued on October 19, 2000, expiring on October 31, 2002, at \$2.00 per share for proceeds of \$6,311,810;
- A private placement totalling 833,333 common shares issued on a flow-through basis at a subscription price of \$3.00 per share, for proceeds of \$1,591,233 (net, before taxes - \$2,422,706); and
- The exercise of 450,000 stock options for proceeds of \$575,000.

The proceeds from these transactions are being used to finance the Pingston Hydroelectric Plant, the Grande Prairie EcoPower™ Centre, and prospects such as Dunvegan. Please refer to the 'Interest Expense, Long-Term Debt and Other Liabilities' section above for a discussion on long-term debt.



OUTLOOK

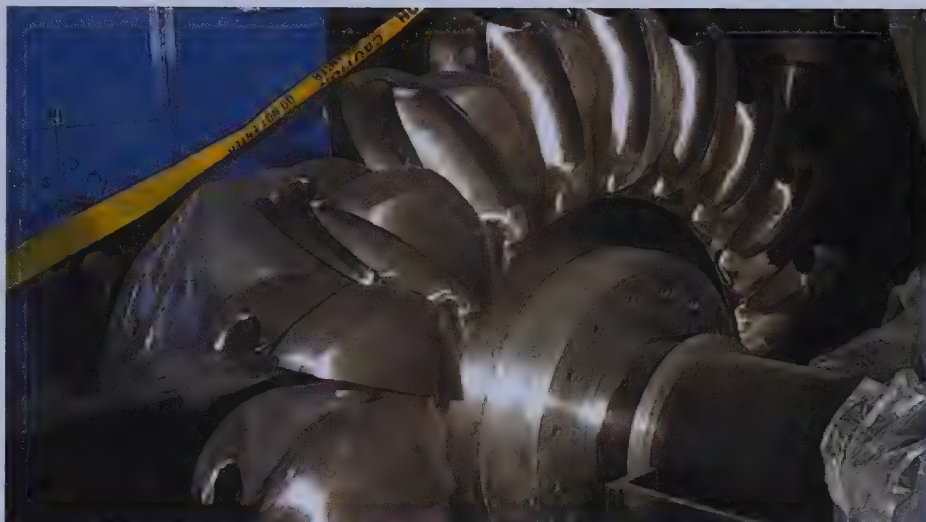
CHD is a developer, owner and operator of thirteen generating facilities: nine "run of river" hydroelectric plants, three wind plants and one natural gas-fired plant, totalling 88.9 MW net to the Company's interest. In addition, the Pingston Hydroelectric Plant (15 MW net) is currently under construction and approximately 273 MW are in various stages of permitting for construction in the next five years. All of the Company's plants and projects are located in British Columbia, Alberta, and Ontario. All of CHD's wind and water plants are certified under the EcoLogo® program.

The commissioning of the Pingston Hydroelectric Plant, which is anticipated to be in March 2003, is expected to positively impact the Company's financial results in 2003. The Company has an installed MW capacity growth target of 15 MW in 2003, and corresponding 75,000 MWh of generation growth target in 2003 over 2002, resulting from the start-up of Pingston in March 2003. Snow packs and precipitation in B.C. and Alberta are currently lower than historical averages. This is not expected to have a significant negative impact on 2003 generation from the Company's B.C. and Alberta hydroelectric plants as the B.C. plants are primarily glacier fed, and water levels are at or near normal for the reservoirs associated with CHD's

Alberta hydroelectric plants. Ontario is currently having a drier winter than in the prior year. While precipitation is improving, it is too early to determine whether there will be a negative impact on hydroelectric generation in Ontario in 2003.

Pool prices have improved significantly since November 2002 due to natural gas supply tightening and demand improving, resulting in higher natural gas and power prices. The average Pool price for January 2003 was \$81/MWh, compared to \$71/MWh for December 2002, and \$28/MWh for the month of January 2002. The average forward Pool price for the remainder of February and March 2003 on the Alberta electricity forwards market is \$69/MWh, and \$55/MWh for the remainder of 2003.

Continued drought conditions in western North America may negatively impact large hydroelectric generation in 2003, creating increased reliance on gas-fired generation. Low water levels in northern Alberta may result in a large coal-fired generation plant being unable to operate as early as April 2003. This plant represents approximately 10% of the province's generation; such a shutdown could create significant upward pressure on Pool prices. These factors bode well for improved Pool prices in 2003 compared to 2002.



In 2003, fluctuations in spot market prices will affect revenues for the Drywood Plant (6 MW), the Taylor Hydroelectric Plant (6.5 MW net) and approximately 50% of the Cowley North and Sinnott Wind Plants (26 MW), which sell their power on the spot market. Taylor only operates during the irrigation season in Alberta, which typically runs from May through September. Approximately 82% of the Company's power generation was sold under long-term contracts during 2002, which reduced the Company's exposure to variable spot prices. CHD estimates that every \$7/MWh change in average Pool price for 2003 will have a \$0.01/share (diluted) impact on earnings, assuming no additional issuances of equity during the year.

While the Company's 6 MW gas-fired Drywood plant has been temporarily shutdown since July 2002 due to low spark spreads and Pool prices, improving fundamentals described above may allow this plant to be put back into service from time to time during 2003.

The Company's operations are based mainly on power generation from hydroelectric and wind resources. Because of this, CHD's financial results in one quarter may not be representative of all quarters. The Company's hydroelectric plants located in B.C. and Alberta (39.6 MW), including Pingston, typically have

higher revenue during the second and third quarters due to higher water levels at the plants that operate all year, as well as the spring start up of the Belly River and Taylor Hydroelectric Plants that are located on irrigation works. The hydroelectric plants located in Ontario (10.9 MW) typically have higher revenue during the first and fourth quarters due to higher water levels during the winter in Ontario and higher contract prices during the October - March period annually. CHD's wind generation plants (47.4 MW) typically have higher revenue in the first and fourth quarters, during the "windy season", however, these plants do not generate as much power as the Company's hydroelectric facilities. While geographical and technological diversification results in smaller quarterly fluctuations in financial results, management expects financial results from the second and third quarters to be higher than those from the first and fourth quarters for 2003.

RISK FACTORS

The Company has a risk management policy that is approved annually by the Board of Directors. The Company's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any significant risks associated with business activities. The Company may use from time to time derivative financial instruments



to manage or hedge commodity price, interest rate, and foreign currency risks. Use of derivatives on a speculative or non-hedged basis is specifically disallowed. Authorization levels for the execution of derivatives for hedging purposes have been set by the Board of Directors and are reviewed quarterly by the Audit Committee.

Risk factors associated with the development and operation of power generation plants relate to environmental concerns, business factors, and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated.

Environmental

The Company's hydroelectric plants are subject to variations in precipitation and in the flow of the watersheds upon which such plants are situated and the Company's wind plants are subject to variations in wind. CHD operates in three distinct regions of Canada as part of its strategy to diversify geographically since there is always the risk of prolonged drought in any one region. The Company's three wind plants further assists in mitigating the risks associated with weather.

The Company's plants and operations are exposed to potential damage, partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires,

and earthquakes), equipment failures and the like. These risks are mitigated by carrying appropriate levels of insurance, reviewed at least annually by management and CHD's insurance broker. The Board of Directors reviews a summary of insurance coverage on an annual basis.

Environment, Health & Safety

The risk of environmental damage during construction activities and operations is of concern to CHD. The Company mitigates this risk, where possible, by employing an environment, health and safety program, and by utilizing insurance and performance bonds to limit its financial exposure.

Regulatory and Political

CHD's operations are subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Company.

The operation of power generating plants is subject to extensive regulation by various government agencies at the municipal, provincial and federal level. There is always the risk of changes being made in government policies and laws, including rates for water rentals and

for income, capital and municipal taxes, and for competitive market and political reasons. CHD closely monitors government activities, particularly in Alberta and Ontario where the process leading up to deregulation of the industry has resulted in a complete review and overhaul of all regulations governing the industry. The Company maintains memberships with associations such as the Independent Power Associations in British Columbia, Alberta and Ontario, the Canadian Hydro Power Association, the Ontario Waterpower Association, the Canadian Wind Energy Association, and the Clean Air Renewable Energy Coalition, which provide the independent power industry with credibility and strength when necessary, to lobby for a competitive and level playing field.

CHD holds permits and licenses from various regulatory authorities for the construction and operation of its plants. These licenses and permits are critical to the operation of the Company's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the plants. These permits and licenses are dependent upon the Company's compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

From time to time, and in order to secure long lead times often associated with ordering equipment, the Company may place orders for equipment and make deposits thereon or advance projects prior to obtaining all requisite permits and licenses. The Company only takes such actions where it reasonably believes that such licenses or permits will be forthcoming in due course prior to the requirement to expend the full amount of the purchase price.

Construction and Design

Delays and cost over-runs may occur in completing the construction of projects. Design or manufacturing flaws may occur, which could conceivably not be covered by warranty or completion bonds. Management of CHD endeavours to obtain warranties and bonds in accordance with good business practice. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. This risk is mitigated, where possible, by utilizing preventative maintenance programs and insurance, carrying an inventory of spare parts, and entering into fixed price contracts in order to limit CHD's financial exposure.

Commodity Price

With the majority of CHD's electrical generation sold under long-term contracts to large utilities and select industrial customers, it has effectively built a "safety net" to protect from a significant loss of sales for several years. When these long-term contracts expire, however, the Company will face market price risks (unless new long-term contracts are entered into), as it currently does with its Drywood, Taylor Hydroelectric, and approximately 50% of Cowley North and Sinnott Wind plants, which sell electricity on a spot basis as "merchant" plants.

The Company seeks to reduce its exposure to the sale of electricity on a spot basis by entering into long-term contracts for at least 75% of its power generation. CHD has contracted the sale of its power from its Pingston Hydroelectric plant for 20 years to BC Hydro, and plans to have the majority of power from its Grande Prairie EcoPower™ Centre sold under long-term contract prior to commencement of construction. A list of CHD's plants, related contracts and expiry dates are included in the 'Report on Operations' section of this Annual Report.

Credit

The Company sells the majority of its power and, in some cases, renewable energy certificates, to third parties on a long-term basis. In addition, CHD enters into purchase orders with third party suppliers for generation equipment for projects under construction, which involves deposits prior to equipment being delivered. Should one or more of these third parties be unable to meet their obligations under the contracts, this would result in possible loss of revenue, delay in construction, and increase in construction costs. This risk is mitigated, where possible, by entering into contracts with credit worthy third parties, and obtaining letters of credit from these parties.

Interest Rate

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. All of the interest rates on CHD's long-term debt are fixed; either as part of the debt agreement or through interest rate swap arrangements.

Foreign Exchange

The Company, on occasion, purchases equipment from foreign suppliers. As such, CHD may be exposed to changes in the Canadian dollar in relation to the foreign currency denominated equipment purchases. This risk is mitigated, where possible, by fixing the purchase price in Canadian dollars or entering into a foreign exchange swap to fix the exchange rate.

Key Employees

Holders of securities of the Company must rely upon the experience and expertise of several key employees of CHD. The Company's continued success is dependent upon its ability to attract and retain experienced management. This risk is mitigated through the Company's human resources and succession plan. In addition, CHD has key man insurance of \$1 million on each of the Chief Executive Officer and Chief Operating Officer.

Industry Risk and Competition

The Company operates in the Canadian power sector, which is effected by competition, supply of and demand for power in the provinces it operates, as well as to the U.S. where import/export transmission lines exist, and overall economic conditions in Canada and the U.S. In addition, some competitors may have significantly greater financial and other resources than CHD. The Company manages the risk of these factors negatively impacting its business through its annual and ongoing strategic planning process. In addition, the Company's strategy of focusing on low-impact, renewable projects mitigates this risk.

Additional Financing

To the extent that external sources of capital, including the issuance of additional securities of the Company, become limited or unavailable, CHD's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be impaired. There can be no assurance that additional financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing treasury Common Shares, investors may suffer dilution to their holdings of securities of the Company.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the Canadian Institute of Chartered Accountants ("CICA") amended its accounting guideline on hedging relationships, which was originally issued in November 2001. The guideline establishes certain conditions where hedge accounting may be applied. It is effective for years beginning on or after July 1, 2003. The Company expects all criteria to be met for all hedging relationships in place at December 31, 2002.

In December 2002, the CICA issued a new standard on the impairment of long-lived assets, which is effective for years beginning on or after April 1, 2003. The new standard requires an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition, which loss should be measured as the amount by which its carrying amount exceeds its fair value, and provides guidance on how to determine fair value. CHD does not expect impairment of any long-lived assets upon adoption.

In December 2002, the CICA issued a new standard on the disposal of long-lived assets and discontinued operations, which is effective for disposal activities initiated by a company's commitment to a plan on or after May 1, 2003. The new standard requires an asset classified as held for sale to be measured at fair value less cost to sell, provides criteria for classifying assets as held for sale and classifying a disposal as discontinued operations, and specifies presentation and disclosures for discontinued operations and other disposals of long-lived assets. As a result of adopting the new standard, the Company anticipates a future impact on the financial statement presentation relating to the Drywood Plant. However, CHD does not currently have a commitment to dispose of the Drywood Plant, and has no plans to dispose of any of its other long-lived assets.


CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Statements of (Loss) Earnings and Retained Earnings
Years Ended December 31

	2002 \$	2001 \$
REVENUE		
Electric energy sales	16,292,529	15,038,615
Revenue rebate (Note 9)	503,079	569,505
	<u>16,795,608</u>	<u>15,608,120</u>
EXPENSES		
Operating	4,992,097	5,192,229
Depreciation	3,482,358	2,328,569
Interest on long-term debt	2,853,366	2,564,466
Administration	1,913,747	1,261,476
Prospect development costs	123,826	-
	<u>13,365,394</u>	<u>11,346,740</u>
 EARNINGS BEFORE THE FOLLOWING	 3,430,214	 4,261,380
IMPAIRMENT OF ASSETS (Note 5)	8,200,000	-
(LOSS) EARNINGS BEFORE INCOME TAXES	<u>(4,769,786)</u>	<u>4,261,380</u>
INCOME TAX (RECOVERY) EXPENSE (Note 10)		
Current	884,275	947,215
Future	(2,287,469)	(386,382)
	<u>(1,403,194)</u>	<u>560,833</u>
 NET (LOSS) EARNINGS	 (3,366,592)	 3,700,547
 RETAINED EARNINGS, BEGINNING OF YEAR	 9,271,632	 5,571,085
 RETAINED EARNINGS, END OF YEAR	 <u>5,905,040</u>	 <u>9,271,632</u>
 (Loss) earnings per share (Note 11)		
Basic	(0.07)	0.10
Diluted	(0.07)	0.09

APPROVED BY THE BOARD



Director



Director

CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Balance Sheets
December 31

	2002 \$	2001 \$
ASSETS		
CURRENT		
Cash	8,926,096	147,181
Accounts receivable	4,035,326	4,665,142
Revenue rebate (Note 9)	503,079	569,505
Prepaid expenses	666,845	161,344
	<u>14,131,346</u>	<u>5,543,172</u>
Capital assets (Note 3)	144,198,338	131,867,137
Prospect development costs (Note 4)	<u>6,103,282</u>	<u>3,240,646</u>
TOTAL ASSETS	<u><u>164,432,966</u></u>	<u><u>140,650,955</u></u>
LIABILITIES		
CURRENT		
Income taxes payable	71,055	177,162
Accounts payable and accrued liabilities	5,721,678	2,314,877
Current portion of long-term debt (Note 7)	<u>4,996,617</u>	<u>4,229,814</u>
	<u>10,789,350</u>	<u>6,721,853</u>
Other liabilities (Note 6)	-	10,071,759
Long-term debt (Note 7)	66,910,572	40,779,754
Future income taxes (Note 10)	<u>15,625,714</u>	<u>17,081,710</u>
	<u><u>93,325,636</u></u>	<u><u>74,655,076</u></u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8(b))	64,052,513	55,574,470
Warrants (Note 8(c))	1,149,777	1,149,777
Retained earnings	<u>5,905,040</u>	<u>9,271,632</u>
	<u>71,107,330</u>	<u>65,995,879</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>164,432,966</u></u>	<u><u>140,650,955</u></u>

CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Statements of Cash Flows
Years Ended December 31

	2002 \$	2001 \$
OPERATING ACTIVITIES		
Net (loss) earnings	(3,366,592)	3,700,547
Adjustments for:		
Depreciation	3,482,358	2,328,569
Prospect development costs	123,826	-
Impairment of assets (Note 5)	8,200,000	-
Future income tax (recovery) expense	(2,287,469)	(386,382)
Loss on sale of capital assets		6,700
Cash flow from operations	6,152,123	5,649,434
Changes in non-cash working capital (Note 12)	(975,870)	(2,185,047)
	5,176,253	3,464,387
FINANCING ACTIVITIES		
Issue of common shares, net of issue costs (Note 8(b))	9,309,516	29,268,450
Issue of warrants, net of issue costs (Note 8(c))		3,882,223
Long-term debt advances	56,331,685	20,095,358
Long-term debt repayments	(29,434,064)	(7,736,186)
	36,207,137	45,509,845
INVESTING ACTIVITIES		
Capital asset additions	(28,093,696)	(45,915,247)
Prospect development costs	(2,885,700)	(3,098,109)
Proceeds on sale of capital assets		24,475
Purchase of other receivables (Notes 5, 14(a))	(1,625,079)	-
	(32,604,475)	(48,988,881)
NET INCREASE (DECREASE) IN CASH	8,778,915	(14,649)
CASH, BEGINNING OF YEAR	147,181	161,830
CASH, END OF YEAR	8,926,096	147,181
Cash flow from operations per share (Note 11)		
Basic	0.12	0.15
Diluted	0.12	0.14
SUPPLEMENTAL INFORMATION		
Cash interest paid	4,247,731	3,456,103
Cash income and capital taxes paid	841,583	769,440

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company, its 50% owned subsidiary Pingston Power Inc., and its wholly-owned subsidiaries, Canadian Gas & Electric Inc., Cowley Ridge Wind Power Inc. ("Cowley"), Glacier Power Ltd., 968385 Alberta Ltd., Canadian Hydro Developers (Ontario), Inc. and Canadian Hydro Marketing Inc. The latter two companies are inactive. Inter-company transactions and balances are eliminated upon consolidation.

Cash

Cash includes short-term deposits with maturities of 90 days or less.

Financial instruments

A portion of the Company's electrical energy sales are sold on a spot basis in Alberta and, as such, the Company is exposed to commodity price risk. The Company mitigates this risk by entering into long-term contracts for the sale of the majority of its electrical generation to third parties. A significant portion of the Company's electrical generation is sold under long-term contracts.

The Company makes significant purchases of equipment for the construction of new electrical generating plants with foreign suppliers and, as such, is exposed to foreign exchange risk. The Company mitigates this risk by fixing the exchange rate with suppliers prior to the purchase of equipment, when possible.

The carrying value of accounts receivable, revenue rebate, accounts payable and accrued liabilities approximates their fair value at December 31, 2002 and 2001 due to their short-term nature. The Company is exposed to credit related losses, which are minimized as the vast majority of sales contracts are with large utility customers with extensive operations in British Columbia, Alberta and Ontario.

The Company's long-term debt is comprised of a revolving reducing loan, mortgages and a promissory note and, as such, the Company is exposed to interest rate risk. The Company mitigates this risk by either fixing the interest rates upon the inception of the debt or through interest rate swaps. The fair values of the mortgages and promissory note have not been determined, however, management is of the opinion that it has mitigated any risk associated with this long-term debt by entering into fixed rate revenue contracts of similar or longer duration. The carrying value of the revolving reducing loan approximates its fair value due to the floating interest rate nature of the debt. The fair value of the interest rate swap is described in Note 7.

Electric operations

Electrical energy sales are recognized at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system.

Generating plants are carried at cost which consists of direct labour, material and equipment costs, engineering, related administrative costs and interest incurred during construction. Depreciation is provided for on a straight-line basis over the service life of the Company's generating plants. Management estimates hydroelectric plants to have a 40 year useful life, while wind energy and natural gas plants are depreciated over a 20 to 30 year remaining useful life. The estimated service life of electric generating plants is subject to periodic review and as a consequence, may change in the future. Such changes will be implemented on a remaining service life basis.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company reviews and evaluates the net recoverable value of its generating plants periodically. In the event the net recoverable value of its generating plants decreases below the net book value, the generating plants are written down to recognize the loss. The net recoverable value is determined using estimated future cash flows from the generating plants, which are prepared by management in conjunction with an evaluation of the generating plants, which is prepared by an independent firm of engineers.

Certain hydroelectric activities of the Company are conducted jointly with others and accordingly, the accounts reflect only the proportionate interest of the Company.

Vehicles, equipment and other

Vehicles, equipment and other assets are recorded at cost and are depreciated using the declining-balance method over their estimated useful lives at rates ranging from 10% to 50%.

Prospect development costs

The Company accumulates costs associated with electric site prospect development activities. Recovery of these costs is dependent upon the successful completion of the related projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the prospect is abandoned.

Future removal and site restoration costs

No provision has been made for future removal and site restoration costs as management estimates the salvage value for its generating plants exceed potential future removal and site restoration costs.

Flow-through shares and warrants

Share capital includes flow-through shares and warrants issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. Share capital is reduced and future income tax liability is increased by an amount equal to the estimated future income taxes payable by the Company as a result of the renunciations.

Stock-based compensation

The Company has a stock-based compensation plan that is described in Note 8(d) and is accounted for using intrinsic values, as defined by the Canadian Institute of Chartered Accountants ("CICA"). Accordingly, compensation costs are not recognized in the consolidated financial statements for share options granted to employees and directors when issued at market value.

Per share amounts

Basic (loss) earnings per share and basic cash flow from operations per share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options or warrants to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of options and warrants, whereby any proceeds from the exercise of options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates that apply in the periods when the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

2. CHANGE IN ACCOUNTING STANDARDS

- (a) Effective January 1, 2002, the new standard for stock-based compensation plans recommended by the CICA requires the disclosure of the impact on net (loss) earnings and net (loss) earnings per share of using the fair value method of accounting for stock options issued to employees on or after January 1, 2002, which is described in Note 8(d).
- (b) Effective January 1, 2002, the Company prospectively adopted the new standard for the presentation of callable debt obligations recommended by the CICA. The new standard relates to the presentation of debt obligations that, by their terms, are due or callable within one year from the balance sheet date, even though payment may not be expected within that period. Under the new standard, debt obligations are classified based on facts existing at the balance sheet date rather than on expectations regarding future financing or renegotiation. As at December 31, 2002, there is no impact of the new standard on the consolidated financial statements.

3. CAPITAL ASSETS

The major categories of capital assets at cost and related accumulated depreciation are as follows:

	2002			2001		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Generating plants						
- operating	114,064,137	15,194,964	98,869,173	120,765,807	12,271,023	108,494,784
- construction-in-progress	44,436,364	-	44,436,364	22,457,002	-	22,457,002
Vehicles	503,973	291,821	212,152	398,153	226,540	171,613
Equipment, other	1,195,389	514,740	680,649	1,141,291	397,553	743,738
	160,199,863	16,001,525	144,198,338	144,762,253	12,895,116	131,867,137

Interest costs of \$1,258,000 (2001 - \$889,943) and administration expenses of \$473,612 (2001 - \$565,268) associated with the construction-in-progress have been capitalized during construction. At December 31, 2002 and 2001, construction-in-progress is comprised of costs relating to the Pingston Hydroelectric Plant and the Grande Prairie EcoPower™ Centre.

4. PROSPECT DEVELOPMENT COSTS

At December 31, 2002, \$4,300,000 (2001 - \$2,500,000) in costs related to the Dunvegan Hydroelectric Plant comprise the majority of prospect development costs. The successful completion of the Dunvegan Hydroelectric Plant is contingent upon regulatory approvals, which are expected in 2003, securing contracts for the sale of power generation from this plant, and obtaining financing.

5. IMPAIRMENT OF ASSETS

Impairment of assets is comprised of the following:

	\$
Drywood Plant	6,235,309
Other receivables	1,964,691
Total	8,200,000

At December 31, 2002, the Company assessed the net recoverable value of the Drywood Plant based on it being a non-core asset that is intended to be eventually sold. The net recoverable value was determined based on the estimated future undiscounted cash flows prepared by an independent firm of engineers and adjusted to estimated net realizable value on disposal. The assessment indicated an excess carrying value and, accordingly, the Drywood Plant was written down to its estimated net recoverable value.

At December 31, 2002, the Company determined other receivables in the amount of \$1,964,691 were likely not recoverable and, accordingly, has written them off (see Note 14(a)).

6. OTHER LIABILITIES

Other liabilities in the amount of \$10,071,759 at December 31, 2001, consisted of accounts payable and accrued liabilities relating to construction-in-progress that were repaid through available long-term credit facilities (see Note 7) during 2002. In 2002, the Company converted the balance of the revolving construction facility to a revolving reducing loan (see Note 7).

7. LONG-TERM DEBT

Effective December 19, 2002, the Company's credit facilities with its corporate bankers consist of a revolving reducing loan (the "Loan"), letters of credit in the amount of \$12,681,957 (2001 - \$20,095,358), and a treasury risk line of credit in the amount of \$3,000,000 (2001 - \$1,500,000). The Loan is amortized over 15 years, and has a rolling two year term, which is renewed annually, consisting of a 364 day revolving period plus an additional one year term. The Loan bears interest at prime plus 0.75%, or at Bankers' Acceptances plus a stamping fee of 2%, with monthly principal payments of \$295,250 plus interest. Concurrent with closing, the Company entered into an interest rate swap arrangement to fix the interest rate at 6.77% per annum on 100% of the Loan for the first five years and 50% of the Loan in years six through 10. At December 31, 2002, the fair value of the interest rate swap was \$1,078,176.

The credit facilities with the Company's corporate lenders are secured by a first fixed and floating charge debenture on all plants and subsidiary companies, with the exception of Cowley, a second charge debenture on Cowley, security interest over all present and after acquired personal property, a floating charge over all real property, and an assignment of certain sales agreements.

At December 31, 2002, the Company was not in compliance with one of its Loan covenants, which requires the Company to maintain a debt service ratio of not less than 1.3:1.0. While the actual debt service ratio was 1.27:1.0, the Company's corporate bankers have waived compliance for this covenant. Management has determined that it is likely the Company will be in compliance with all Loan covenant requirements for at least one year from the balance sheet date. Accordingly, the Company has classified the Loan as a long-term liability.

7. LONG-TERM DEBT (Continued)

	2002 \$	2001 \$
Revolving reducing loan, bearing interest fixed at 6.77%. Monthly repayments are \$295,250 plus interest	52,022,793	-
Mortgage on Cowley, bearing interest at 10.867%, secured by the plant, related contracts and a reserve fund for \$725,000 that has been provided by a letter of credit to the lender. Monthly repayments of principal and interest are \$120,960 until December 15, 2013	9,293,533	9,710,188
Mortgage, bearing interest at 10.7% and secured by letters of guarantee. Monthly repayments of principal and interest are \$83,927 until May 31, 2010	5,135,403	5,566,566
Mortgage, bearing interest at 10.68%, secured by letters of guarantee. Monthly repayments of principal are \$31,250 plus interest until December 30, 2012	3,750,000	4,125,000
Promissory note, bearing interest fixed at 6%, secured by a second fixed charge on three of the Alberta hydroelectric plants. Monthly repayments of principal and interest are \$19,348 until August 1, 2012	1,705,460	1,832,456
Reducing committed term loan, bearing interest at prime plus 0.75%. Monthly repayments are \$200,000 plus interest commencing November 30, 2001	-	19,695,358
Term loan, bearing interest fixed at 7.38% until April 30, 2003. Monthly repayments are \$40,000 plus interest until April 30, 2008	-	3,080,000
Revolving construction credit facility, bearing interest at prime plus 1.25%, with interest payable monthly	-	1,000,000
	71,907,189	45,009,568
Less current portion	4,996,617	4,229,814
Long-term debt	66,910,572	40,779,754

Principal repayments for the long-term debt for each of the five succeeding years are as follows:

	\$
2003	4,996,617
2004	5,111,776
2005	5,239,556
2006	5,381,359
2007	5,538,747
Thereafter	45,639,134
	71,907,189

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares, to be issued in series

(b) Issued, common shares

	2002		2001	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance, beginning of year	48,151,301	55,574,470	28,062,427	14,744,460
Exercise of warrants	3,155,905	6,311,810	631,580	1,263,160
Issued as flow-through shares	833,333	2,499,999	2,005,000	7,174,250
Issued on exercise of stock options	450,000	575,000	65,000	91,000
Tax effect of flow-through share renunciations	-	(858,000)	-	(3,508,450)
Share issue costs, net of tax effect of \$26,527 (2001 - \$567,259)	-	(50,766)	-	(1,048,174)
Issued as common shares	-	-	10,229,444	22,618,273
Conversion of October Special Warrants	-	-	5,415,800	9,784,430
Conversion of warrants	-	-	900,000	1,625,981
Conversion of flow-through warrants	-	-	842,050	2,829,540
Balance, end of year	52,590,539	64,052,513	48,151,301	55,574,470

(c) Warrants

	2002		2001	
	Number of Warrants	Amount \$	Number of Warrants	Amount \$
Balance, beginning of year	8,580,122	1,149,777	6,315,800	11,410,411
Exercise of warrants	(3,155,905)	-	-	-
Expiry of warrants	(1,995)	-	-	-
Issued as flow-through warrants	-	-	842,050	2,989,278
Issued as warrants	-	-	8,580,122	1,149,777
Conversion of October Special Warrants	-	-	(5,415,800)	(9,784,430)
Conversion of October Warrants	-	-	(900,000)	(1,625,981)
Conversion of flow-through warrants	-	-	(842,050)	(2,829,540)
Warrant issue costs net of tax effect of \$nil (2001 - \$97,095)	-	-	-	(159,738)
Balance, end of year	5,422,222	1,149,777	8,580,122	1,149,777

On June 20 and July 3, 2002, the Company completed private placements totalling 833,333 common shares, issued on a flow-through basis, at a subscription price of \$3.00 per share, for gross proceeds of \$2,499,999. Qualifying expenditures of \$2,499,999 were incurred in 2002, and income tax benefits of \$858,000 were renounced to subscribers at December 31, 2002.

8. SHARE CAPITAL (Continued)

During the year ended December 31, 2002, 3,155,905 common share purchase warrants, expiring on October 31, 2002, were exercised at \$2.00 per share, for gross proceeds of \$6,311,810. The remaining 1,995 common share purchase warrants were not exercised by October 31, 2002 and expired. The common share purchase warrants were issued pursuant to a private placement of 6,315,800 series A and B special share purchase warrants (the "Warrants") on October 19, 2000, which were converted into 6,315,800 common shares and 3,157,900 common share purchase warrants during 2001. Of these Warrants, 5,415,800 Warrants (the "October Special Warrants") were qualified through a prospectus filed by the Company on June 8, 2001, and 900,000 Warrants (the "October Warrants") were converted prior to the filing of the prospectus in 2001. For accounting purposes, no value was attributed to the common share purchase warrants.

On March 8, 2001, the Company completed a private placement totalling 842,050 flow-through warrants, at \$3.55 per warrant, for gross proceeds of \$2,989,278, which were converted into 842,050 common shares on June 13, 2001. On May 23, 2001 and July 19, 2001, the Company completed private placements totalling 2,005,000 common shares, issued on a flow-through basis, at subscription prices of \$3.60 and \$3.50 per share, for gross proceeds of \$7,174,250. Qualifying expenditures of \$10,163,528 were incurred in 2001, and income tax benefits of \$3,508,450 were renounced to subscribers at December 31, 2001.

On July 16, 2001, the Company completed a private placement with a third party of 1,265,000 common shares at a subscription price of \$2.85 per share, for gross proceeds of \$3,605,250. In addition, 1,000,000 share purchase warrants, exercisable into common shares at \$3.27 per share, which expire on July 31, 2004, were issued and were outstanding as at December 31, 2002. In conjunction with the private placement, 631,580 previously issued Agent's warrants, were purchased by the third party. The third party exercised the 631,580 warrants on December 31, 2001. For accounting purposes, no value was attributed to the common share purchase warrants.

On September 10 and 28, 2001, the Company completed private placements of 8,844,444 units at a subscription price of \$2.25 per unit, for gross proceeds of \$19,900,000. The units consisted of 8,844,444 common shares and 4,422,222 share purchase warrants, exercisable into common shares at \$2.35 per share, which expire on September 10, 2004 and were outstanding as at December 31, 2002. For accounting purposes and using the Black Scholes pricing model, \$0.26 was attributed to each common share purchase warrant.

On September 13, 2001, the Company issued 120,000 common shares, priced at a fair market value of \$262,800, to a third party as consideration for the lease of certain properties owned by the third party.

(d) Options

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers, employees, and other persons considered key to the Company's operations at an exercise price equal to the market price of the Company's common shares at the time of grant. Options issued prior to April 25, 2001 under the plan vested at the time the option was granted, whereas options issued thereafter vest at the rate of 25% on each anniversary date of the option grant. All outstanding options are granted for a ten year term. The total number of options outstanding must not exceed 10% of the total common shares outstanding. At December 31, 2002, the Company had approved for issuance 4,364,500 options (2001 - 3,352,500) of which 3,600,000 were issued (2001 - 3,700,000).

8. SHARE CAPITAL (Continued)

Options reconciliation table:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2000	3,135,000	\$1.01
Granted	630,000	\$2.39
Exercised	(65,000)	\$1.59
Outstanding at December 31, 2001	3,700,000	\$1.24
Granted	350,000	\$2.40
Exercised	(450,000)	\$1.28
Outstanding at December 31, 2002	3,600,000	\$1.35

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Life (Years)	Number Exercisable	Weighted Average Exercise Price
\$0.50 to \$1.00	2,020,000	4.0	\$0.71	2,020,000	\$0.71
\$1.25 to \$2.10	955,000	7.8	\$1.81	688,750	\$1.79
\$2.26 to \$3.20	625,000	8.9	\$2.70	68,750	\$1.80
\$0.50 to \$3.20	3,600,000	5.9	\$1.35	2,777,500	\$1.03

If the fair value method of accounting for stock options issued to employees on or after January 1, 2002 had been used, then the effect on net loss would have been an increase of \$82,541 (\$nil per share) for the year ended December 31, 2002. The weighted average fair value of options granted during the year ended December 31, 2002 was \$1.48 per share. The fair value of options granted has been estimated using the Black-Scholes option-pricing model, assuming a risk free interest rate of 5.25%, expected volatility of 49.69, expected weighted average life of eight years, and no annual dividends paid.

9. REVENUE REBATE

The revenue rebate is paid by Transalta Utilities Corporation in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act, which will apply until the associated power sale agreements expire in 2013 and 2014. The revenue rebate is based on the federal cash taxes paid by Cowley.

10. INCOME TAXES

The components of the future income tax liability at December 31, 2002 and 2001 are as follows:

	2002	2001
	\$	\$
Future income tax liabilities		
Capital assets	14,834,334	16,985,811
Prospect development costs	2,036,302	1,063,058
Future income tax assets		
Non-capital loss carryforwards	(535,777)	(32,135)
Capital loss carryforwards	(90,130)	(90,917)
Share issue costs	(619,015)	(844,107)
Net future income tax liability	15,625,714	17,081,710

At December 31, 2002, the Company had non-capital loss carryforwards of \$1,561,121 (2001 - \$92,822), which expire in 2007 through 2009.

Total income taxes are different than the amount computed by applying the combined statutory Canadian and Provincial tax rates of 39.18% (December 31, 2001 - 42.31%) to income before taxes. This difference results from the following:

	2002	2001
	\$	\$
Statutory tax rate	39.18%	42.31%
Computed expected tax	(1,868,802)	1,802,990
- impact of statutory tax rate reduction on future tax liability	159,448	(1,552,141)
- large corporations tax and provincial capital taxes	377,528	364,367
- impact of M&P tax deduction	(36,239)	(32,106)
- other	(35,129)	(22,277)
Provision for income taxes	(1,403,194)	560,833
Comprised of:		
Current	884,275	947,215
Future	(2,287,469)	(386,382)
	(1,403,194)	560,833

11. EARNINGS AND CASH FLOW FROM OPERATIONS PER SHARE

The following table shows the dilutive effect of dilutive securities on the weighted average common shares outstanding. No adjustments to earnings or cash flow from operations were required for the calculation of diluted earnings and diluted cash flow from operations per share.

	2002	2001
	Number of Shares	Number of Shares
Basic weighted average shares outstanding	49,533,306	36,450,241
Effect of dilutive securities:		
Options	1,614,852	1,889,915
Warrants	45,426	3,438,769
Diluted weighted average shares outstanding	51,193,584	41,778,925

Warrants to purchase 5,422,222 (2001 - 1,000,000) common shares at a weighted average price of \$2.52 (2001 - \$3.27) per share, and options to purchase 625,000 (2001 - 275,000) common shares at a weighted average price of \$2.70 (2001 - \$3.08) per share were outstanding as at December 31, 2002, but were not included in the computation of diluted earnings and diluted cash flow from operations per share because the respective exercise prices exceeded the average market prices of the common shares.

12. CHANGES IN NON-CASH WORKING CAPITAL

	2002	2001
	\$	\$
Changes in non-cash working capital		
Accounts receivable	629,816	(1,052,699)
Revenue rebate	66,426	(47,395)
Prepaid expenses	(505,501)	(218)
Income taxes payable	(106,107)	(177,162)
Accounts payable and accrued liabilities	(1,060,504)	(907,573)
	(975,870)	(2,185,047)

13. RELATED PARTY TRANSACTIONS

In connection with the acquisition of a former subsidiary and as payments for certain engineering services in the normal course of business, gross overriding royalties ranging from 1% - 2% are payable by the Company on electric energy sales on certain of the Company's hydroelectric plants to a company controlled by a director and officer of the Company. During the year, royalties totalling \$59,293 (2001 - \$31,812) were incurred with \$7,466 (2001 - \$649) payable at year end.

14. COMMITMENTS AND CONTINGENCIES

- (a) In 2000, the Company entered into an agreement (the "Agreement") with First Canadian Electric Inc. ("FCE"), for the addition to the existing 6.0 MW gas-fired Drywood Plant of a separate 7.5 MW facility (the "Addition"). Under the Agreement, FCE was solely responsible for funding the construction of the Addition. As well, the Agreement stipulated that upon satisfactory completion and commissioning of the Addition, the Company would transfer 40% ownership of the existing 6.0 MW Drywood Plant to FCE and FCE would transfer 60% ownership of the Addition to the Company, at no cost to the Company.

In order to facilitate FCE's involvement in the project, and to assist FCE with financing for the construction of the Addition, the Company acted as co-borrower for a \$1,300,000 demand loan that FCE had entered into with its lender (the "Loan"). In connection with the Loan, FCE granted the lender security, including an assignment of book debts and a general security agreement (the "Security"). In consideration for the Company's co-signing of the Loan, FCE entered into an Indemnity Agreement with the Company pursuant to which FCE agreed, among other things, to indemnify the Company, and provide to the Company security over the assets of FCE.

As a result of FCE being unable to complete the construction of the Addition, the Company terminated the Agreement with FCE, and FCE filed a lawsuit against the Company claiming \$4,500,000 in damages regarding the Company's termination of the Agreement, among other things (the "Lawsuit"). The Company believes the Lawsuit is without merit. In addition, several builder's liens (the "Liens") were filed against the property on which the Addition is located and statements of claim relating to the Liens were filed against FCE, which also named the Company as a defendant (the "Lien Lawsuits").

On July 17, 2002, a wholly-owned subsidiary (the "Subsidiary") of the Company purchased the Loan and the Security from FCE's lender. The aggregate amount of the Loan and accrued interest on July 17, 2002 was \$1,352,072. The Loan bears interest at National Bank of Canada prime rate of interest plus 1.5% per annum. The Subsidiary made demand for payment of the Loan and accrued interest from FCE. As the Loan and accrued interest were not repaid by FCE, the Subsidiary enforced its Security through the appointment by instrument of a receiver over certain assets of FCE. The receiver has been instructed to liquidate the subject assets of FCE, on behalf of the Subsidiary, in order to satisfy the Loan, accrued interest and costs, which liquidation has not yet been completed.

During and subsequent to 2002, the Company took an assignment and negotiated settlement of certain Liens and Lien Lawsuits in the face amount of \$1,531,452, for consideration of \$305,949 (the "Settled Liens"), and Liens in the amount of \$491,355 were discharged. There remain outstanding Liens and Lien Lawsuits in the face amount of approximately \$1,070,000, plus civil claims relating to the Addition filed for approximately \$460,000, for a total of \$1,530,000 (the "Proceedings"). The Company has estimated the cost to settle the Proceedings (the "Remaining Costs") based on the consideration paid by the Company for the Settled Liens.

On November 29, 2002, FCE was placed into bankruptcy by an order from the Court of Queen's Bench of Alberta. The trustee in bankruptcy of the estate of FCE (the "Trustee") is currently determining the ownership of assets between FCE and the Company, the validity of the Lawsuit, and assessing the claims of the secured and unsecured creditors of FCE. The Trustee has reported it had received a preliminary legal opinion that the Subsidiary's Security is valid and enforceable.

Management of the Company is of the opinion that it will ultimately gain ownership of FCE's assets as it is the only secured creditor of FCE. However, management has determined that it is likely the recoverable value of the Addition, which comprises the majority of the Security, is nominal, as it is dependent upon the recoverable value of the Drywood Plant, which was written down at December 31, 2002 (see Note 5). Therefore, at December 31, 2002, the Loan and Settled Liens were written down and the Company provided for the Remaining Costs in the aggregate amount of \$1,964,691 (see Note 5).

14. COMMITMENTS AND CONTINGENCIES (Continued)

- (b) The Company has a sub-lease agreement with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant that may require the Company to provide OPG with vacant possession of the site at the expiration of the lease term in 2004. An estimate of the future removal and site restoration costs associated with this potential event cannot be reasonably determined at this time.
- (c) In the ordinary course of maintaining plants and equipment, and in constructing new projects, the Company routinely enters into contracts for goods and services. Subsequent to December 31, 2002, the Company committed to approximately \$2,100,000 for goods and services for the Pingston Hydroelectric and Grande Prairie EcoPower™ Centre projects. These projects will be completed over the next two years.
- (d) The Company is committed to sell 70% of its capacity, which represented 82% of its electrical generation for the year ended December 31, 2002, to several third parties under long-term contracts maturing from 2006 to 2027.
- (e) The Company is committed to sell the equivalent of all of the electricity and environmental attributes from three, 375 kW wind turbines, and 3,300 MWh per year at fixed prices under long-term contracts maturing from 2003 to 2007.
- (f) The Company has committed to sell all of the electricity and environmental attributes to be generated from the 30 MW Pingston Hydroelectric Plant and the 25 MW Upper Mamquam Hydroelectric Project for 20 years to BC Hydro. Commencement of construction on the Upper Mamquam Hydroelectric Project is contingent upon regulatory approvals and financing. Should this project not proceed, BC Hydro will terminate the contract, and the Company will forfeit a \$25,000 deposit.
- (g) Commencing January 1, 2004, the Company has committed to sell to the City of Grande Prairie (the "City") for 15 years approximately 22,000 - 37,000 MWh per year of electricity to be generated from the Grande Prairie EcoPower™ Centre. Should this project not be operational by January 1, 2004, the contract allows for the Company to provide electricity to the City from the Company's electrical generation plants that are not subject to sales contracts. Management believes the Company has sufficient electrical generation, which is not subject to contract, to satisfy the City's requirements should this project not be operational by January 1, 2004.

Corporate Information

MANAGEMENT:

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Angelito de la Paz, CGA
Treasurer

M. Ann Hughes, LLB
General Counsel and
Corporate Secretary

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Vice President,
Environmental Management

John D. Keating, CA
Chief Executive Officer

J. Ross Keating, P.Eng
President and Chief
Operating Officer

David R. Keevill, P.Eng
Manager, Hydro Division

Gavin S. Lowe
Manager, Wind Energy Division

Stephen J. O'Gorman
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Montreal, Quebec

Cyrille Vittecoq
Montreal, Quebec

⁽¹⁾ Member of Audit
& Compensation Committees

⁽²⁾ Board Chair

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta; Vancouver, British
Columbia; Toronto, Ontario

SHARE STRUCTURE:

Common issued and outstanding 52,590,539
Fully diluted common shares 61,612,761

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INDEPENDENT ENGINEERS:

McDaniel & Associates Consultants Ltd.,
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange "KHD"



In keeping with Canadian Hydro Developers' commitment to the environment, the paper used for this annual report has been supplied from a sustainable forest program and manufactured using a 100% chlorine-free bleaching process that significantly reduces air emissions. Coated paper contains 50% recycled and 20% post consumer fiber. Uncoated paper contains 60% recycled and 25% post consumer fiber. The entire report is printed with vegetable-based inks.

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a commitment to the environment
and a vision for the future.

Three simple words.

One powerful company.

